



COVER SHEET

This is the author-version of article published as:

Kiel, Geoffrey C and Nicholson, Gavin J (2005) Evaluating Boards and Directors.
Corporate Governance: An International Review 13(5):pp. 613-631.

Accessed from <http://eprints.qut.edu.au>

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Evaluating Boards and Directors

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Evaluating Boards and Directors

Abstract

The challenge for boards is to prevent crises in the organisations they govern. Performance evaluation is a key means by which boards can recognise and correct corporate governance problems and add real value to their organisations. Our paper provides a practical introduction to board and director evaluations. We discuss the reasons for governance failures and how board evaluations can help prevent them from occurring. We then review the performance pressures facing boards and the benefits of board evaluations in meeting these pressures. Finally, we introduce our framework for a successful board and/or individual director evaluation, whatever the company type. In this framework, we suggest there are seven key questions to consider when planning a board evaluation and discuss each of these seven decision areas.

Keywords: Boards of directors; Performance evaluation; Corporate governance

Evaluating Boards and Directors*

Behavioral psychologists and organizational learning experts agree that people and organizations cannot learn without feedback. No matter how good a board is, it's bound to get better if it's reviewed intelligently (Sonnenfeld, 2002: 113).

Corporate governance issues continue to receive a high profile in the business press. Recent problems at Disney and Fannie Mae in the United States, and the massive losses at Marconi plc in the United Kingdom, add to the litany of governance failures and scandals that have characterised big business in the 21st century. These failures underscore the fact that boards must be concerned with more than organisational and management performance, they also need to review their own performance. Board evaluation is a significant way for boards to show they are serious about their performance, and as Sonnenfeld astutely observes in the above quotation, even good boards can benefit from a properly conducted evaluation. Unfortunately, while “[m]ost people are interested in doing an evaluation...they’re quite ignorant about how to do it” (Bob Garratt qtd in Bingham, 2003). This paper provides a practical introduction to board and director evaluations.

To begin, we discuss reasons behind governance failures and how board evaluations can help prevent them. We then highlight the significant performance pressures boards now face and the benefits of board evaluation in helping meet these pressures. In the third section of the paper, we introduce our framework for a successful board and/or individual director evaluation. In this framework, we suggest there are seven key questions to consider when planning a board evaluation and discuss each of the

* This paper was presented at the 7th International Conference on Corporate Governance and Board Leadership, 11-13 October 2004 at the Centre for Board Effectiveness, Henley Management College.

seven decision areas for the board evaluation process. Whether a company is listed on the stock exchange, a small family company or a not-for-profit organisation, the framework can be used to develop an evaluation process appropriate to the organisation.

Governance failures

Governance failures may result in either a significant reduction in, or total destruction of, shareholder wealth. There are also a broader set of economic and social ramifications that come with the closure of businesses and loss of jobs and retirement benefits. Given the widespread implications of corporate failure, it is important to understand how boards contribute to this failure. We provide four categories for these failures: strategic, control, ethical and interpersonal relationship. Often these failures are interrelated. For example, at Enron, the board failed in the areas of strategy, control and, arguably, ethics, while at Hollinger International there were failures in the areas of control and ethics. The following examples illustrate the four categories of governance failure:

1. Strategic failure: with full board approval, the managing director of UK corporation Marconi plc disposed of the company's engineering, electrical and defence products businesses despite these being the foundation of the company's success. The company, again with board approval, launched into an ill-considered and ill-timed strategy aimed at turning Marconi into a cutting edge technology firm (Court, 2003);
2. Control failure: the board of Barings plc oversaw an inadequate risk management system that resulted in losses estimated to be in the vicinity of £927 million. As a result, rogue trader Nick Leeson brought down the merchant bank (Hogan, 1997);

3. Ethical failure: in an attempt to remove potential asbestos liabilities from the company's books, Australian building products company James Hardie Industries restructured its business through the incorporation of a new parent company in the Netherlands. During the process it transferred responsibility for asbestos compensation to a medical foundation that was found to be underfunded (Buffini, 2004). The company is still battling the reputation damage of the board's decision; and
4. Interpersonal relationship failure: the board of Walt Disney Co. has earned the ire of institutional investors for its lack of an independent board. Boardroom battles between then chairman and CEO Michael Eisner and dissident board members Roy Disney and Stanley Gold, who subsequently resigned to lead a campaign to oust Eisner, have become the stuff of legend (CBSNEWS.com, 2003).

We could continue this litany of examples of corporate failure and even debate the categorisation of each failure. But it is not our intention to document corporate failures, rather it is to assist boards improve themselves, so as to minimise failure from strategic ineptitude, lack of controls, dishonesty or poor dynamics.

Board evaluations provide a process for boards to identify sources of failure. They allow boards to diagnose areas of concern before they reach crisis point. For example, a board evaluation can ask the directors how well the board is performing the strategy role and whether they feel comfortable that they are adding value in the strategy generation process. Similar questions can be asked about the monitoring and control role of the board. A well-designed evaluation, covering both board-as-a-whole and individual director evaluation, is likely to raise the issue of ethical concerns among some directors in relation to others or management. The same comments can

be made for interpersonal relationship failure. A well-designed board evaluation can serve to highlight potential issues and promote discussion and resolution before concerns become major crises. Board evaluations are not a universal panacea for all board ills. However, used correctly and regularly, they may play a major role in averting a governance failure.

The pressure to perform

Averting corporate failure is not the only pressure faced by boards; increasing demands for organisational performance are also increasing performance pressures on boards. There are number of reasons for this. First, as boards are held increasingly accountable for corporate performance, they become increasingly more proactive in the leadership of the companies they govern. Effective leadership is seen as critical to establishing the tone of a corporation (i.e. its culture and values), developing a strategic direction, guiding change and formulating corporate objectives, and ensuring effective implementation takes place. Holding boards accountable in these areas represents a fundamental shift in organisational thinking. For close on 100 years, the chief executive, supported by his or her management team, was largely seen as totally responsible for these areas. Today, underpinned by theoretical developments in agency theory (e.g., Hendry, 2002), and fuelled by tales of corporate excesses such as Hollinger International (Aylmer, 2004) and Tyco (Bianco, Symonds, Byrnes and Polek, 2002), shareholders, legislators and society at large are increasingly demanding that boards demonstrate leadership and control. After all, they are the peak body in organisations. In short, the role of the board has changed from management support to organisational leadership. This represents a paradigm shift in management thinking, the full implications of which are just dawning upon companies and commentators alike (Pound, 1995).

Second, and related to the first reason, there has been a dramatic rise in shareholder activism over the past two decades. The main reason for this increased activism is the increase in power of large institutional investors, who are becoming far more demanding of boards. This trend is seen internationally with large pension funds in the US (such as CalPERS) being vocal advocates for governance reform. Thus, despite mixed findings on the empirical links between corporate governance and firm performance (e.g., Dalton, Daily, Ellstrand and Johnson, 1998; Dalton, Daily, Johnson and Ellstrand, 1999; Rhoades, Rechner and Sundaramurthy, 2000), there is a discernable and growing belief in the investment community that good governance will enhance corporate outcomes. Institutional investors perceive that the board can directly enhance shareholder value by intervening in the case of corporate crises, providing strategic guidance and selecting and monitoring the CEO (Conger, Lawler and Finegold, 2001). As a result, more than 80% of European and US institutional investors say they will pay more for companies with good governance (Economist Intelligence Unit, 2001). The onus on boards to improve performance is further strengthened by the ability of shareholders and investors to assess the corporate governance practices of major corporations through ratings systems such as those developed by Standard & Poor's (2003) and the Corporate Library (2004), which rate board effectiveness using factors such as board composition, director tenure and CEO compensation.

In addition to leadership responsibilities and shareholder activism, there is an increasing media and community scrutiny of all aspects of corporate life. Names such as Enron, WorldCom and Tyco International in the US, along with Marconi and Barings in the UK and HIH Insurance in Australia, have come to symbolise a breakdown in corporate ethics and boards are squarely in the firing line. Society at

large is beginning to lay the blame for poor corporate decision making (such as at Marconi) and systems failures (such as Baring's risk management controls) directly at the feet of the board. It appears this scrutiny will continue and only serves to intensify community expectations that boards need to be brought to account for the performance of the companies they govern.

For these reasons boards are turning to board evaluation as a major tool to assist them in improving their performance. This global trend sees specific board evaluation recommendations forming a key component of nearly every major corporate governance review or report. For example, the *Principles of Good Corporate Governance and Best Practice Recommendations* (ASX Corporate Governance Council, 2003) in Australia, *Beyond Compliance: Building a Governance Culture* (Saucier, 2001) in Canada, the *Combined Code on Corporate Governance (Combined Code)* (Financial Reporting Council, 2003) in the U.K., and the *Principles of Corporate Governance (A White Paper from the Business Roundtable, May 2002)* (Business Roundtable, 2002) in the U.S., all make specific recommendations for the regular review of board performance.

The benefits of an evaluation to a board are numerous. If conducted properly, board evaluations can contribute significantly to performance improvements on three levels – the organisational, board and individual director level. Boards who commit to a regular evaluation process find benefits across these levels in terms of improved leadership, greater clarity of roles and responsibilities, improved teamwork, greater accountability, better decision making, improved communication and more efficient board operations. Table 1 summarises the potential benefits of board evaluation to the organisation, the board as a whole and to individual directors. It must be stressed, however, that these benefits can only arise from a properly executed board evaluation.

Board and director evaluations, if incorrectly executed, can lead to distrust among board members and between the board and management.

INSERT TABLE 1 ABOUT HERE

The board evaluation framework

Following is a framework for conducting positive board and director evaluations. Although boards differ in the severity of their performance problems, the competitive environment in which they work and the range of performance issues they face, there are a number of key decisions that are relevant to all boards implementing an evaluation process. Our framework for a successful board or individual director evaluation relies on the board reaching agreement on the answers to the seven key questions illustrated in Figure 1 (Kiel, Nicholson and Barclay, 2005). While the seven questions must be asked for all board evaluations, the combined answers can be quite different. As a result, while the questions are common to each, board evaluations can range markedly in their scope, complexity and cost. While we describe our framework as a sequential series of events, in practice most boards will not follow such a linear process. Some of these decision areas will be reached simultaneously, for example, “who will be evaluated” may be decided at the same time as “who will conduct the evaluation”. Similarly, external issues may dominate the approach (e.g., scarce resources may dictate an internal review). However, at some point, each of these questions will need to be answered.

INSERT FIGURE 1 ABOUT HERE

What are our objectives?

The first stage of the board evaluation process is to establish what the board hopes to achieve. Clearly identified objectives enable the board to set specific goals for the evaluation and make decisions about the scope of the review. Such issues as the complexity of the performance problem, the size of the board, the stage of organisational life cycle and significant developments in the firm's competitive environment will determine the issues the board wishes to evaluate. Similarly, the scope of the review – how many people will be involved, how much time and money to allocate – will be determined by the severity of the problems facing the board and the availability of sufficient resources (human, financial and time) to carry out an evaluation.

The first decision for most boards to consider is the overriding motivation for the evaluation process. Generally, the answer to this question will fall into one of the following two categories: (1) corporate leadership (for example, “We want to clearly demonstrate our commitment to performance management”, “We believe reviewing our performance is essential to good governance”, “We want to provide directors with guidance for their learning and growth”) or (2) problem resolution (for example, “We are not sure if we are carrying out good governance”, “Our governance (or some specific aspect) is ineffective and/or inefficient”, “There are problems in the dynamics in the boardroom”, “We do not seem to have the appropriate skills, competencies or motivation on the board”).

Many boards find that establishing the specific objectives for the review is best delegated to a small group (such as the governance committee or nomination committee if you have one) or an individual (such as the chairperson or lead independent director). In this case, the first step is for the board to request the group

or person to document the specific objectives for the process. At this stage you may also wish to consider consulting with an external adviser to overcome any board “blind spots” or biases. The second approach involves the board as a whole discussing and agreeing the objectives of the board evaluation. Generally an individual, usually the chairperson or chair of the governance or nomination committee, is delegated the task of leading the process.

With clear objectives, it is relatively easy to decide whose performance will be evaluated, who the most appropriate people are to assess performance and the person or group best suited to conducting an evaluation.

Who will be evaluated?

With the objectives for the evaluation set, the board needs to decide whose performance will be reviewed to meet them. Comprehensive governance evaluations can entail reviewing the performance of a wide range of individuals and groups, as illustrated in Figure 2. Boards need to consider three groups: the board as whole (including board committees), individual directors (including the roles of chairperson and/or lead independent director), and key governance personnel (generally the CEO and corporate/company secretary). Pragmatic considerations such as cost or time constraints, however, often preclude such a wide-ranging review. Alternatively, a board may have a very specific objective for the review process that does not require the review of all individuals and groups identified in Figure 2. In both cases, an effective evaluation requires the board to select the most appropriate individuals or groups to review based on its objectives. To make this decision, we recommend a four-stage process that gradually filters a comprehensive list of possible review participants to a pragmatic selection of review subjects.

INSERT FIGURE 2 ABOUT HERE

The first stage in the process involves identifying the roles that clearly impact on the board's review objectives and compiling a comprehensive list of individuals or groups that affect this objective. For instance, a review designed to improve the flow of information to the board will have a long list of possible candidates for the review. The CEO is an obvious candidate, as he or she will be responsible for developing and delivering the bulk of board papers and information. The board will also need to consider its own role in specifying its information requirements to the individuals and groups responsible for meeting those requirements. The board also needs to consider the role of other personnel such as the corporate/company secretary.

The second stage involves assessing the potential benefit(s) of including each candidate (group or individual) in the review. Documenting these benefits ensures the board will have a common understanding of the relative merits of reviewing each candidate when deciding who to include. Categorising the specific advantages of each candidate as critical, useful, or ancillary will assist in your decision making. For the third stage, it is necessary to estimate the time and cost implications of evaluating the performance of the candidates in question.

The final stage in deciding who to evaluate involves balancing the benefits and costs of reviewing each of the candidates. While it is not possible to provide universal, prescriptive guidance, the principle is to ensure that all candidates with a major impact on the desired objective are reviewed. The relative importance of each candidate will need to be considered in light of the importance of the review objective, the relative importance of potential candidates, and the relevant cost implications.

The most common issue in deciding who to evaluate is whether to concentrate on board-as-a-whole or individual director assessment. Regular evaluation of the board as a whole can be seen as a process that ensures directors develop a shared understanding of their governance role and responsibilities. Although board-as-a-whole evaluation is excellent as a familiarisation tool for inexperienced boards, one disadvantage is that group evaluation may give only limited insight into performance problems. Consequently, some boards choose to progress to the evaluation of board committees, individual directors and the chairperson to gain greater insight into how their board is functioning.

Individual evaluation, in particular, provides the board with an opportunity to probe particular issues in depth. To evaluate individual directors, either self- or peer-evaluation techniques can be used. The aim of self evaluation is to encourage directors to reflect on their contributions to board activities and have them identify their personal strengths and weaknesses. However, while useful for personal reflection and development, self assessment is inappropriate when the board wants an objective view of the individual's performance. An objective view is best gained through peer evaluation, whereby directors identify each other's individual strengths and weaknesses. By having members of the board evaluate each other, it is possible to gain a more rounded picture of the strengths and weaknesses of each director and their contribution to the effectiveness of the board. It can also be used to identify skills gaps on the board. Peer assessment is also more likely to reveal why the board is experiencing team performance or ethical dilemmas.

There is the potential, however, to create serious conflict within the board if individual performance evaluation is introduced when some directors are opposed to the process. Board members are entitled to hold differing views on the benefits of

individual director evaluation, but consensus must be reached before introducing the process. If directors are willing to at least trial this approach, research evidence suggests that many directors find individual director evaluation an extremely beneficial process (Conger, Lawler and Finegold, 2001: 112).

What will be evaluated?

Having established the objectives of the evaluation and the people/groups that will be evaluated to achieve those objectives, the next stage involves the evaluation becoming specific. It is now necessary to elaborate these objectives into a number of specific topics to ensure that the evaluation (1) clarifies any potential problems, (2) identifies the root cause(s) of these problems, and (3) tests the practicality of specific governance solutions, wherever possible. This is necessary whether the board is seeking general or specific performance improvements and will suit boards seeking to improve areas as diverse as board processes, director skills, competencies and motivation, or even boardroom relationships.

When an organisation is facing a significant governance issue or a board is seeking to improve its performance, there is rarely a single issue that requires review. The vast majority of governance concerns are, in fact, the result of the interplay between individual skills, experience and motivations; the relationships between the board and management; and the effectiveness of supporting governance policies, procedures and processes (Kiel and Nicholson, 2003). Consequently, while there may be a single objective for a board review, it is imperative for the evaluation process to examine a wide range of potential causes or influences on this objective.

We suggest that boards consider their specific objectives in light of a best practice corporate governance framework. The framework acts as a “lens” through which to view the objectives and allows the board to develop a comprehensive list of potential

areas for investigation. Of course, a comprehensive list of areas for investigation will need to be balanced with the scope of the evaluation and the resources available for the project. This stage requires the person leading the evaluation to take a realistic assessment of the resources available, a key component of which is the time availability of directors and other key governance personnel, such as the CEO and corporate/company secretary.

There are a number of frameworks against which boards can assess their performance. Specific examples of governance frameworks that boards can use to refine their evaluation objectives include John Carver's (1997b) Policy Governance model, the UK's *Combined Code* (Financial Reporting Council, 2003), the *OECD Principles of Corporate Governance (OECD Principles)* (OECD, 2004), the Australian Stock Exchange (ASX) Corporate Governance Council's (2003) *Principles of Good Corporate Governance and Best Practice Recommendations* and Kiel and Nicholson's (2003) Corporate Governance Charter framework. It is worth reviewing each in turn.

John Carver (1997b) recommends frequent board self-assessment in his Policy Governance model. This is done by comparing the board's performance to the policies it has developed. Under Carver's model, the board is responsible for the job of governing, not managing the organisation. In order to carry out its leadership role, the board produces four categories of policies:

1. Ends: the policies which specify organisational outcomes for the recipients and costs of the intended outcomes;
2. Executive limitations: the policies that limit executive authority;

3. Governance process: the policies that define how the board operates, and expectations of the board as a whole, individual directors, executives, and committees; and
4. Board-management relationship: policies on the board's delegation of power and monitoring of its use by the CEO.

The aim of the *Combined Code* is to enhance board effectiveness and to improve investor confidence by raising standards of corporate governance in the U.K. The *Combined Code*'s main and supporting principles provide a framework through which a board could develop a set of topics or questions for board evaluation. For example, Section 1A.3 (Board balance and independence) could form the core criterion for the evaluation of a board on the question of whether it has the proper structure (which includes the skills and experience that should be represented on the board) and size to adequately discharge its responsibilities and duties. This section could also be used to clarify what those responsibilities and duties entail. The *Combined Code* also provides specific advice on board evaluations (Financial Reporting Council, 2003). It suggests boards should be asked to consider "How well has the board performed against any performance objectives that have been set?" and "What has been the board's contribution to the testing and development of strategy?" (Financial Reporting Council, 2003: 77). Similarly, the *OECD Principles* outline how to implement a corporate governance framework and as such are a suitable model around which to develop evaluation criteria.

In Australia, the *ASX Principles of Good Corporate Governance and Best Practice Recommendations* contains 10 principles of good governance which are voluntary; however, ASX-listed companies that do not follow them are expected to explain why they do not. Corporate governance statements in the annual reports of companies

listed on the ASX indicate that these principles are being given close consideration. The principles and best practice recommendations developed by the Council provide another example of a framework through which a board could develop a set of topics or questions for board evaluation. For example, the ASX principles encourage organisations to structure their boards to add value to the company (ASX Corporate Governance Council, 2003, 19). This could form the core criterion for the evaluation of a board on the question of whether it has the proper structure (which includes the skills and experience that should be represented on the board) and size to adequately discharge its responsibilities and duties, and to clarify what those responsibilities and duties entail.

The final example, Kiel and Nicholson's Corporate Governance Charter framework, illustrated in Figure 3, is conceptualised as a wheel divided into four quadrants representing the essential elements of corporate governance. The first quadrant "Defining governance roles" helps boards to define their roles and responsibilities, the second, "Improving board processes", encourages board members to consider the effectiveness of their meeting procedures, agendas, board papers and minutes as well as the board calendar of events and ensuring efficient processes for board committees. The third describes "Key board functions" and the final quadrant, "Continuing improvement", deals with the processes and procedures necessary for ensuring continuing improvement and corporate renewal.

INSERT FIGURE 3 ABOUT HERE

The following example highlights how a board can use a framework to address their particular evaluation objectives. Boards often set an objective of identifying any

skills gaps on the board. Generally, this topic arises when there have been major changes in the strategy or competitive environment of an organisation and the board sees a need to review its skill set. Choosing what to evaluate in these circumstances will depend on such issues as board size and structure, as well as how the board executes its key functions (e.g., strategy formulation, service, monitoring, compliance and risk management). Only by reflecting on these topics can a board understand what skills it needs.

When the evaluation objective is to identify skills gaps, the board may also need to consider how it will resolve any gaps. Does the board adequately promote director development? Is there a director development budget? Or would it be more appropriate to appoint someone with the appropriate skills to the board? If recruitment is an option, does the board have in place selection and induction procedures that will enable the board to recruit a new board member with suitable skills? Table 2 provides a selection of questions developed from the Corporate Governance Charter model to be used in evaluating the board as a whole.

INSERT TABLE 2 ABOUT HERE

Deciding what to evaluate is one of the most difficult and yet critical components of the evaluation process. The evaluator faces a delicate balancing act between ensuring the questioning is extensive enough to identify the root cause(s) of the issue, yet manageable enough to satisfy the scope and resource constraints of the review.

Who will be asked?

In our experience, the vast majority of board and director evaluations concentrate exclusively on the board (and perhaps the CEO) as the sole sources of information for

the evaluation process. As Figure 4 illustrates, this discounts numerous potentially rich sources of feedback on the performance of the governance system. As the diagram highlights, participants in the evaluation can be drawn from within or from outside the company. Internally, board members, the CEO, senior managers and, in some cases, other management personnel and employees may have the necessary information to provide feedback on elements of a company's governance system. Externally, owners/members and even financial markets can provide valuable data for the review. Similarly, in some situations, government departments, major customers and suppliers may have close links with the board and be in a position to provide useful information on its performance.

INSERT FIGURE 4 ABOUT HERE

In each board evaluation, the facilitator will need to decide the appropriateness of each potential participant's knowledge to the particular performance issues being evaluated. Generally, boards consult internal sources first. One way of delineating between internal and external participants is to revisit the evaluation objectives and clarify whether the focus of the evaluation is on the skills, processes and relationships of the board or on the board's effectiveness in carrying out its key roles. For example, investigating the effectiveness of intra-board relationships is likely to be an exclusively internal process, where directors give their impressions of the performance of the board as a whole, their personal performance and possibly that of their peers. In this situation, the board members themselves are the most qualified to comment on how they feel they work together as a team. However, if an objective of the board is to improve stakeholder relationships, this will best be achieved by

gathering information from the stakeholders themselves. Depending on the nature of the business, these may be owners, financial analysts, customers or suppliers critical to the organisation's success.

While these examples of intra-board relations and stakeholder relations represent clear-cut instances of the value of internal or external data sources, the board's performance is often best evaluated by a combination of internal and external sources. Table 3 describes potential benefits and drawbacks of asking the various participants.

INSERT TABLE 3 ABOUT HERE

After examining all potential sources of information along with their relative advantages and disadvantages, the facilitator must decide which sources to include in the review. This requires an understanding of three issues:

1. in light of the specific questions identified in the previous step, who has the knowledge needed to make a valid and reliable assessment;
2. what is the level of board experience with, and openness to, the evaluation process and what is the impact on who should be asked; and
3. what resources are available to collect the information from the required sources.

What techniques will be used?

Depending on the degree of formality, the objectives of the evaluation, and the resources available, boards may choose between a range of qualitative and quantitative techniques. Quantitative data are in the form of numbers. They can be used to answer questions of how much or how many. Qualitative data are not in the

form of numbers and will be required for any other type of research question. Put simply, a question of “how much” should employ quantitative research methods, whereas questions of “what”, “how”, “why”, “when” and “where” should employ qualitative research methods. Figure 5 provides an overview of the major qualitative and quantitative techniques used in board evaluations.

INSERT FIGURE 5 ABOUT HERE

Most boards undertake evaluations without a clear view of the issues before them. When the evaluation’s objectives are to identify the key governance problems, screen alternative solutions and/or uncover new approaches, qualitative research comes to the fore. Qualitative data does have several drawbacks, however. The major drawback is that interpreting the results requires judgment on the part of the person undertaking the review and analysis. Consequently, conclusions can be subject to considerable interpreter bias, even (or particularly) where the person conducting the review is a board or company member. This is best addressed by using experienced researchers for the task and having several participants review the conclusions for bias. Bias can also be mitigated by using both quantitative and qualitative techniques (e.g., using a survey in conjunction with interviews).

While there are many different techniques for collecting qualitative data (e.g., projective techniques, word associations and role playing to name just a few), the three main methods used in governance evaluations are interviews, board observation and document analysis.

The interview is the main qualitative data collection tool because it provides a unique opportunity to collect complex and rich data. It is an excellent way of assessing

directors' perceptions, meaning and constructions of reality by asking for information in a way that allows them to express themselves in their own terms. Interviews may be conducted individually or in a group situation. While interviews are essentially about asking questions and receiving answers, the key to uncovering rich information is a professional, well-designed interview process.

By far the most common form of qualitative technique is the individual in-depth interview. The key advantage of the individual interview is that it provides the conditions most likely to encourage candid disclosure of sensitive issues, particularly where confidentiality is assured. The confidentiality of the situation often encourages directors to disclose information that they may feel uncomfortable discussing in a group situation. Thus, individual interviews can be a useful technique for certain subjects such as individual director evaluation. The interview technique is particularly suitable for boards wanting to explore one or two major issues in some depth. In-depth interviews are potentially a much richer source of information than quantitative data because the range of any discussion is open-ended. They also prove useful when discussing "soft" issues, personal concerns and points of view that are not readily disclosed in a written questionnaire (Conger, Lawler and Finegold, 2001).

In a group situation (often called a focus group), the interviewer works with several people simultaneously rather than individually. The key difference for the interviewer is that he or she takes on the role of a moderator or facilitator, rather than that of an interviewer. Rather than the question and answer pattern of the traditional interview, the interviewer uses group dynamics to stimulate discussion of the questions and topics of interest (Punch, 1998). The key benefits of group-based interviews are that they are less resource intensive and can stimulate the participants to produce data and insights that would not be found without the group interaction. Conversely, these

benefits need to be balanced with possible problems of group culture and dynamics that may inhibit candid disclosure. It is also more difficult for the interviewer to establish rapport in a group setting. We would not normally recommend employing group interviews where there are potentially sensitive issues under review.

Another useful qualitative technique to consider is observation, particularly observation of a board meeting. This technique involves the researcher observing the participants in their natural environment – the boardroom. The researcher neither stimulates nor manipulates the participants (i.e. no questions are asked, etc.), but rather takes note of the participants' behaviours, activities and points of interest to the research question.

Observation has a number of advantages as a data collection technique. Since the data is collected as events occur and is a record of what *actually* occurred, rather than what a director *thought* occurred, it is free from respondent bias, but is still subject to observer bias. It is also easier to identify environmental influences (such as seating arrangements in the boardroom) on behaviours and can also be an effective way of seeing all board members in action at the one time. Our experience is that observation can be especially useful when the evaluation objectives relate to issues of boardroom dynamics or relationships between individuals. The observer can notice how board members relate to each other, if one or two people dominate discussions, whether the chairperson demonstrates a strong leadership role, if there is tension between board members, how the agenda works in practice and so on. This information is valuable when used in conjunction with information gained from the directors themselves.

Documents, both contemporary and historical, can be a rich source of information in the governance evaluation process. While it is possible to categorise and/or directly code governance documentation, we recommend document analysis as a method of

triangulation for use in conjunction with other data collection techniques. Reviewing key documents such as board papers, board minutes, policy manuals and governance charters, provides valuable insight into a governance system and a context in which to view the results of other data collection techniques (Punch, 1998). A key benefit of document analysis is the questions it raises. It can be as basic as why a particular document does not exist? What level of detail is included? What is recorded? What is omitted? What is the writer taking for granted? Another benefit is that a review and categorisation of documents can assist an experienced facilitator to benchmark differences between the board's documentation and that of other "best practice" boards.

While quantitative data lack the richness of qualitative data, they have the key advantage of being specific and measurable. This enables the evaluation to count, compare and contrast individual responses both over time and between individuals. Surveys are by far the most common form of quantitative technique used in governance evaluations and can be an important information-gathering tool. It is vital to understand, however, that surveys are attitudinal instruments. Surveys measure individuals' subjective assessments of particular topics and are subject to responder bias. The responses are no more or less valid than qualitative research.

As with qualitative techniques, surveys can be used as the sole source of information for the evaluation, or as one of several data gathering techniques. If the survey is the only method employed to gather data, it will necessarily be more extensive than if it is used in conjunction with other techniques. If it is being used as a component of a governance evaluation, the facilitator will have a key decision to make about the timing of the survey. Will the survey draw on the results of interviews (i.e. will the questions in the survey be based on what directors identified as key issues) to

quantitatively assess what has been identified qualitatively, or will the survey be administered as a stand-alone tool? The answer to this question will depend on the objectives of the evaluation and the context of the review. Often, pragmatic issues such as resources or time constraints dictate the response.

In order to conduct a survey-based board evaluation we suggest following a seven-step process:

1. Specifying the objectives of the survey, in light of the evaluation's overall objectives.
2. Deciding the composition of the survey sample, that is, who will be asked to complete the survey? Is it intended just for board members, or will others, such as the senior management team and the CEO, or external stakeholders be involved?
3. Determining how the survey will be administered. A common way to administer the survey is face-to-face, in a situation where the survey is just one part of evaluating the board's performance. Survey data can also be collected by phone, fax or email, or via the internet, which means that directors can complete them at a time and place suitable for them.
4. Designing the questionnaire. Excellent surveys support the purpose of the evaluation – the topics chosen are relevant to the evaluation requirements, the questions are worded in such a way as to gain the maximum relevant information and to avoid bias, and the measurement technique chosen is most appropriate for the information being sought (Kraut, 1996).
5. Administering the questionnaire. This involves the fieldwork necessary to undertake the board survey, including advising participants of the time and

place for the meeting (if a group survey is being conducted), scheduling appointments (for individual surveys), or sending the questions by mail, fax or email (as an attachment).

6. The coding and analysis stage of the survey process transforms raw data (the recorded measures in the responses) into information that can be used for decision making.
7. Presentation of the results. Once the coded data has been entered, it is a simple process to generate histograms and other charts to present the data.

What is the best methodology? Research techniques need to be adapted to the evaluation objectives and board context. In particular, the research designer needs to be aware of the advantages and disadvantages of the various techniques. Qualitative techniques provide rich data, but the logistics of collecting and analysing the data are difficult. Further, qualitative data is generally interpreted by the researcher, which makes it more open to criticisms of bias and lack of validity. Quantitative analysis, on the other hand, is based on reducing the data or phenomena in question to numbers. This is not nearly as informative as qualitative data, but can be readily collected from a large number of people or other sources. It is also very easily consolidated, compared and/or benchmarked.

The choice of techniques will depend on the board's objectives. If the board is trying to identify the source of a performance problem, qualitative data can help to identify the cause. Similarly, if the objective of the evaluation is to understand member or owner views on a particular subject, qualitative data will be the most appropriate. However, if the board wants to compare its performance with other boards or over time, then quantitative techniques may be best. Most boards will explore a range of

techniques as a means of investigating different performance issues and to keep the evaluation process fresh and interesting. In this way, a regular evaluation cycle will continue to benefit the board.

Who will do the evaluation?

The next consideration in establishing your evaluation framework is to decide who the most appropriate person is to conduct the evaluation. If the review is an internal one, the chairperson commonly conducts the evaluation. However, there are times when it may be more appropriate to delegate either to a non-executive or lead director, or to a board committee. In the case of external evaluations, specialist consultants or other general advisers with expertise in the areas of corporate governance and performance evaluation may lead the process. Figure 6 illustrates the choices for determining who will perform the evaluation.

INSERT FIGURE 6 ABOUT HERE

Internal reviews are traditionally the most common form of board evaluation and have a number of key advantages. First, by conducting an internal review, the board is asserting its autonomy to set and apply its own standards (Berenbeim, 1994). Board autonomy is a key source of power and conducting a self-evaluation demonstrates this authority at the same time as establishing the standards and culture of performance evaluation that the board expects of the rest of the organisation. An internally conducted review also has the advantage of the confidentiality that comes with a board member conducting the process. Ultimately, the value of the evaluation will depend on the level of commitment that participants bring to the process. Ensuring confidentiality through the appointment of a trusted insider can be an important aspect

of gaining this commitment and ensuring that feedback is open and honest. Internally conducted board evaluations can be useful team-building exercises. The ability of the board to function effectively as a team is a fundamental determinant of superior board performance. Finally, internal reviews generally have the advantage of being a more cost-effective option.

Although there are many benefits to internal evaluations, there are also a number of limitations that may make them inappropriate in certain circumstances. The two major concerns involve issues of transparency and capability. In many circumstances, boards undertake evaluations to demonstrate their commitment to performance improvement to both external and internal stakeholders. In these cases, the question of “who watches the watchers” is a serious one. If the board establishes the evaluation process, sets its objectives, evaluates its own members and prepares the final report on its own performance, it may be perceived as lacking transparency.

Apart from transparency, boards need to ensure the nominated person/group has the capability to undertake the review. An internal reviewer often brings (unconscious) biases to the process. It is difficult for the chairperson, directors or corporate/company secretary to provide a totally objective view of the board’s performance when they work so closely together. In particular, full and frank disclosure may be difficult for participants where the reviewer may be central to the governance issue. Similarly, an internal reviewer may lack the skill set and capacity to conduct the review. There are a number of very specific research skills invaluable to the evaluation process that an internally nominated reviewer may not possess. For example, is the person charged with leading the evaluation a skilled interviewer and communicator? Does he or she have sufficient experience in questionnaire design? If the answer to these questions is “no”, an internal facilitator may not be the best

choice. Similarly, even where the evaluator does possess the skills, do they have the necessary time to carry out the tasks required?

As depicted in Figure 6, either an individual (chairperson or non-executive director) or a committee (e.g., governance or nomination committee) can conduct an internal evaluation. Finding the right person to conduct the process is an important part of determining whether an internal evaluation should be undertaken. Table 4 summaries the advantages and disadvantages of internal reviewers.

INSERT TABLE 4 ABOUT HERE

There are a number of situations where boards find it preferable to engage external consultants or advisers to facilitate the board evaluation. Boards tend to seek external evaluation facilitators in two generalised circumstances, namely where there is a significant requirement for transparency and/or where the board does not have the capability to carry out the evaluation itself. External consultants can also prove valuable in a number of special circumstances such as when the evaluation process has become too mechanical over time. External consultants can recommend different questions and approaches, and assist the board to find a new focus for each evaluation. Similarly, when a board is implementing an individual director assessment for the first time, the board may wish to consider an external facilitator. An external facilitator can play a useful mediating role if there are personality considerations in the review process. Using a third party as the messenger of the evaluation outcomes also assists in maintaining board dynamics, while addressing difficult issues. Finally, an external facilitator can be useful if there has been a major board reorganisation.

The major decision for boards deciding to implement an external review is whether they should use a specialist consultant or trusted general adviser. Some boards prefer to utilise a trusted adviser, such as the firm's legal counsel or auditor, to conduct the evaluation. This allows the board to work with people they already know and whom they believe understand the boardroom dynamics.

In contrast, a specialist consultant has the advantages of often possessing a higher level of technical skill and being perceived as having a greater degree of independence. The specialised nature of a board review requires skills often outside the customary scope of many general advisers. Similarly, a consultant engaged specifically to carry out the evaluation can be perceived as more independent than a reviewer with an existing relationship with the firm (such as a general counsel or auditor), if that is an important consideration for the board. Finally, specialist consultants will have a broad range of exposure to different boardroom practices and benchmarks, so if comparison and new ideas are key objectives, specialist consultants may be the answer.

Whether choosing between a trusted adviser or specialist consultant, there are some important questions the board needs to consider:

- Does the proposed facilitator have sufficient skills and experience to conduct an evaluation?
- Has the facilitator conducted board evaluations for other boards like ours?
- Does the facilitator have access to benchmarking information and alternative governance ideas that will add value to the process?
- Will the facilitator be able to form a balanced and objective view of our board?

- Will the board trust the facilitator sufficiently to ensure a positive outcome?

What do you do with the results?

The review's objectives should be the determining factor when deciding to whom the results will be released. Most often the board's central objective will be to agree a series of actions that it can take to improve governance. Since the effectiveness of an organisation's governance system relies on people within the firm, communicating the results to internal stakeholders is critical for boards seeking performance improvement. Given that virtually all governance reviews are conducted with a view to improving the governance system, boards are rarely faced with the decision of whether to communicate the results internally. Rather, the decision is who within the organisation needs to know the results.

Since the board as a whole is responsible for its performance, the results of the review will be released to the board in all but the most unusual of circumstances. Where the evaluation objectives are focused entirely on the board, board members will simply discuss the results among themselves. This occurs, for example, when the objective is to conduct a general review of the board's performance, with a view to improving board process or gaining a shared understanding among board members as to roles or other items of interest. Normally, the board and the corporate/company secretary will review the findings around the boardroom table, and there will be no need to communicate the results to anyone else.

Where the results of the evaluation concern individual director performance, the generally accepted approach is for the chairperson and/or facilitator to discuss them individually, with each director. This approach has three advantages. First, it reflects good performance management principles and ethics by respecting the confidentiality of the process and the individual's integrity. Second, it ensures that difficult topics,

often avoided in the boardroom setting, have a venue for discussion. Third, it does not rely on director self-diagnosis; there is a measure of objectivity and accountability, particularly where the director and chairperson/facilitator outline a development plan to which the director can be held accountable.

The CEO has a significant influence on the governance system and is nearly always involved in the review of results. The key decision here is whether informing the CEO would adversely affect board dynamics and solidarity. Where board dynamics or individual relationships are major governance concerns, the principle of board solidarity may require it to hold an in camera session.

In circumstances where the objective of the board evaluation is to assess the quality of board-management relationships, or where there are process issues concerning management input into board meetings and papers, results of the evaluation will generally be shared with the senior management team. Some organisations choose to communicate a summary of the board evaluation results more widely in the organisation. This can be particularly helpful where boards are seeking to inculcate a culture of performance management and accountability within the company.

In certain circumstances, the board will have an objective of building its reputation for transparency and/or developing relationships with key external stakeholders. In such circumstances, the board should consider communicating some or all of the results of its review to those stakeholders. Communicating the results of the evaluation demonstrates that the board takes governance seriously and is committed to improving its performance.

Additionally, depending upon who participated in the evaluation, the board may also wish to communicate results to key customers, suppliers or other groups important for

its continued success (e.g., unions, environmental groups). Sharing information with these major groups is likely to persuade them that the board is committed to improving stakeholder relationships. It also provides feedback to those who have been asked for their views on the board's performance and can serve to strengthen their relationships with the board.

The performance evaluation cycle

Aside from the seven key questions in an evaluation, boards need to consider how often they should evaluate their performance. Some boards decide to undertake reviews on an "as needs" basis. This approach may be beneficial to boards that have a clearly articulated and understood policy on the triggers that will prompt a review. The difficulty with the "as needs" review is that, unless there are clear guidelines linking them to specific situations such as a change in board composition, performance evaluation is liable to be overlooked.

When choosing to institute a regular review process, boards can institute frequent or longer-term cycles. Some boards choose to hold a regular performance evaluation every two or three years. These tend to be extensive appraisal processes, combining interviews and surveys and often involving an external facilitator. The chief disadvantage of two or three-yearly reviews is that most businesses operate in a very dynamic environment and many changes will occur during this time frame.

The annual review is the most commonly recommended form of board evaluation. This is consistent with the annual planning cycle adopted by most boards. Some boards find it useful to tie board evaluation to the strategy formulation process. This is a useful way of adapting performance expectations to fit the strategic needs of the organisation. For those organisations operating in more dynamic business environments, however, annual reviews may not be frequent enough. In high

technology industries, for example, a review of the board's performance every six months may be more appropriate.

Although the annual review is the most common form of evaluation, this does not necessarily make it the most effective. There is always a danger that the predictable annual event will become stale and no longer add value. If evaluation becomes too routine an activity, boards are in danger of becoming complacent. In these circumstances, it is important to experiment with different evaluation styles and techniques to keep the process interesting and ensure that it continues to lead to performance improvements. Notwithstanding the concern over the process becoming stale through repetition, a set of questions that provide specific, measurable data against which the board can benchmark its performance over time can further contribute to the board's continuing improvement.

Some commentators believe that performance evaluation should be an ongoing process, not just an annual event (e.g., Carver, 1997a). High performing boards tend to devise other mechanisms apart from an annual review to ensure ongoing performance improvement. One option is to review the effectiveness of each board meeting. This can be scheduled as a regular agenda item, with directors taking turns to lead the discussion. The technique involves the appointment of one board member to act as the "meeting evaluator". This person observes the participants, assesses the content and importance of items on the agenda and the quality of board papers. The evaluator then gives his or her opinion in a five-minute review at the end of the meeting. The other board members are then asked for their comments on the effectiveness of the meeting and to offer suggestions for improving performance. The whole process is intended to last no more than 10 or 15 minutes. This is a simple technique for keeping performance issues "front of mind" for the board. It is an easy

way to gain quick feedback and to encourage discussion and interaction between board members, and it requires little time or effort to put in place.

Conclusion

Performance evaluation is becoming increasingly important for boards and directors. Pressure for improved evaluation is coming from two main sources. First, some commentators are calling for mandatory performance appraisals to promote corporate transparency and accountability. Second, there are clear performance benefits to companies when their leaders are willing to engage in an open and honest appraisal of their own performance.

While compliance pressures for improved evaluations should be a consideration for all boards, we have concentrated on emphasising the performance benefits that are possible with rigorous board and individual director evaluation processes. A key way for a board to demonstrate its commitment to continuing improvement is through critical evaluation. Therefore, a regular board evaluation process is an important process that can really add value. It benefits individuals, boards and the companies for which they work.

Boards also need to recognise that the evaluation process is an effective team-building, ethics shaping activity. Our observation is that boards often neglect the process of engagement when undertaking evaluations; unfortunately, boards that fail to engage their members are missing a major opportunity for developing a shared set of board norms and inculcating a positive board and organisation culture. In short, the process is as important as the content. In conclusion, implementing a robust and successful board and director evaluation is one important way to ensure that a board can avert governance failure and consequent organisational failure.

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Table 1: Potential benefits of board evaluation

| Benefits | To organisation | To board | To individual directors |
|-------------------------|--|--|--|
| Leadership | <ul style="list-style-type: none"> ▪ Sets the performance tone and culture of the organisation ▪ Role model for CEO and senior management team | <ul style="list-style-type: none"> ▪ An effective chairperson utilising a board evaluation demonstrates leadership to the rest of the board ▪ Demonstrates long-term focus of the board ▪ Leadership behaviours agreed and encouraged | <ul style="list-style-type: none"> ▪ Demonstrates commitment to improvement at individual level |
| Role clarity | <ul style="list-style-type: none"> ▪ Enables clear distinction between the roles of the CEO, management and the board ▪ Enables appropriate delegation principles | <ul style="list-style-type: none"> ▪ Clarifies director and committee roles ▪ Sets a board norm for roles | <ul style="list-style-type: none"> ▪ Clarifies duties of individual directors ▪ Clarifies protection of directors ▪ Clarifies expectations |
| Teamwork | <ul style="list-style-type: none"> ▪ Builds board/CEO/management relationships | <ul style="list-style-type: none"> ▪ Builds trust between board members ▪ Encourages active participation ▪ Develops commitment and sense of ownership | <ul style="list-style-type: none"> ▪ Encourages individual director involvement ▪ Develops commitment and sense of ownership ▪ Clarifies expectations |
| Accountability | <ul style="list-style-type: none"> ▪ Improved stakeholder relationships, e.g., investors, financial markets ▪ Improved corporate governance standards ▪ Clarifies delegations | <ul style="list-style-type: none"> ▪ Focuses board attention on duties to stakeholders ▪ Ensures board is appropriately monitoring organisation | <ul style="list-style-type: none"> ▪ Ensures directors understand their legal duties and responsibilities ▪ Sets performance expectations for individual board members |
| Decision making | <ul style="list-style-type: none"> ▪ Clarifying strategic focus and corporate goals ▪ Improves organisational decision making | <ul style="list-style-type: none"> ▪ Clarifying strategic focus ▪ Aids in the identification of skills gaps on the board ▪ Improves the board's decision-making ability | <ul style="list-style-type: none"> ▪ Identifies areas where director skills need development ▪ Identifies areas where the director's skills can be better utilised |
| Communication | <ul style="list-style-type: none"> ▪ Improves stakeholder relationships ▪ Improves board-management relationships ▪ Improved board-CEO relationships | <ul style="list-style-type: none"> ▪ Improves board-management relationships ▪ Builds trust between board members | <ul style="list-style-type: none"> ▪ Builds personal relationships between individual directors |
| Board operations | <ul style="list-style-type: none"> ▪ Ensures an appropriate top-level policy framework exists to guide the organisation | <ul style="list-style-type: none"> ▪ More efficient meetings ▪ Better time management | <ul style="list-style-type: none"> ▪ Saves directors' time ▪ Increases effectiveness of individual contributors |

Source: Kiel, Nicholson and Barclay, 2005

Table 2: Skills of the board: topics and sample questions

| Topic | Sample questionnaire items |
|---|--|
| Defining governance roles | |
| Role of the board | 1. Is the role of a board member clearly defined? |
| | 2. Is the role of a board member well understood? |
| Board structure | 3. Does the spread of talent within the board reflect the company's needs? |
| | 4. Do all board members bring valuable skills and experience to the company? |
| | 5. Is the board large enough to carry out the work required of it? |
| Improving board processes | |
| Board meetings | 6. Do the board papers contain the correct amount and type of information? |
| | 7. Are board members diligent in preparing for meetings? |
| | 8. Are matters relating to the company discussed in a structured manner? |
| Key board functions | |
| Strategy | 9. Does the board know and understand the company's mission, vision and strategy? |
| | 10. Does the board know and keep abreast of trends and issues affecting the market in which the company competes? |
| | 11. Does the board understand the business it is governing? |
| Service/advice/contacts | 12. Do board members actively engage in networking for the benefit of the company? |
| Monitoring | 13. Do board members have sufficient financial skills to ensure the board can discharge its governance responsibilities? |
| Compliance | 14. Does the company have relevant internal reporting and compliance systems? |
| Risk management | 15. Are board members aware of their risk assessment duties as directors? |
| | 16. Is there a clear understanding of the company's business risk? |
| Continuing improvement | |
| Director development | 17. Does the board encourage directors to pursue opportunities for personal development? |
| Director selection and induction | 18. Does the board have a succession plan in place for the chairperson? |
| | 19. Does the board have a director succession plan in place? |
| | 20. Are there clear and well understood policies and procedures in place for director selection and induction? |

Table 3: Who has the knowledge?

| Category | Information sources | Knowledge benefits | Potential drawbacks |
|-------------------------|---------------------|--|--|
| Internal sources | Board members | <ul style="list-style-type: none"> ▪ Should have key knowledge on skills, processes, relationships, level of shared understanding | <ul style="list-style-type: none"> ▪ Suffer from biases (such as groupthink) ▪ Little understanding of external perceptions of the board ▪ Do not provide a “set of fresh eyes” with which to examine governance processes |
| | CEO | <ul style="list-style-type: none"> ▪ Should have a different perspective on all elements of board activity ▪ Key insight into the advice role of board ▪ Key insight into succession issues | <ul style="list-style-type: none"> ▪ Potentially suffers from biases ▪ Potentially impression manages for the board, particularly on issues of management activities ▪ May have a limited or biased understanding of external perceptions |
| | Senior managers | <ul style="list-style-type: none"> ▪ Generally good insights into communication between the board and management | <ul style="list-style-type: none"> ▪ May not have enough exposure to the board ▪ May be tainted by internal company politics |
| | Other employees | <ul style="list-style-type: none"> ▪ Should have insight into the culture of the organisation ▪ The further removed from the board, the less likely employees can comment on actual performance | <ul style="list-style-type: none"> ▪ Limited exposure to the board |
| External sources | Owners/ members | <ul style="list-style-type: none"> ▪ Understand ownership aims | <ul style="list-style-type: none"> ▪ Will depend on the ownership structure (may be disparate) |
| | Customers | <ul style="list-style-type: none"> ▪ Can have unique insights, particularly if the company has very few customers | <ul style="list-style-type: none"> ▪ Most likely will have little insight into how the board operates ▪ Potential to “game” the system |
| | Government | <ul style="list-style-type: none"> ▪ Can have insightful views, particularly in certain areas of compliance, if these are critical | <ul style="list-style-type: none"> ▪ Often limited interaction with most companies |
| | Suppliers | <ul style="list-style-type: none"> ▪ Can have unique insights, particularly if the company has very few suppliers | <ul style="list-style-type: none"> ▪ Most likely will have little insight into how the board operates |
| | External experts | <ul style="list-style-type: none"> ▪ Useful benchmarking or best practice insights | <ul style="list-style-type: none"> ▪ May not understand company’s context |
| | Other stakeholders | <ul style="list-style-type: none"> ▪ Will depend on nature of the company | <ul style="list-style-type: none"> ▪ Will depend on nature of the company |

Source: Kiel, Nicholson and Barclay, 2005

Table 4: Chairperson, non-executive director and committee evaluations

| Chairperson | | Non-executive director | | Committee | |
|--|---|---|--|--|--|
| Advantages | Disadvantages | Advantages | Disadvantages | Advantages | Disadvantages |
| <ul style="list-style-type: none"> • Part of leadership role – clear acceptance by board members • Clear accountability • Can align process with overall board agenda | <ul style="list-style-type: none"> • Possible bias • Concentration of power, particularly if the CEO is chairperson • Heavy workload | <ul style="list-style-type: none"> • Clear accountability • More independent view • More time to devote to task • Other leadership experiences/skills | <ul style="list-style-type: none"> • Possible bias • Possible effect on board dynamics • Knowledge of the company will be less than that of the chairperson | <ul style="list-style-type: none"> • Relieves chairperson/ non-executive director of workload • Less reliant on the viewpoint of one person • Less subject to individual bias | <ul style="list-style-type: none"> • Longer process • Demands greater resources (time, money etc.) |

Source: Kiel, Nicholson and Barclay, 2005

Figure 1: Framework for a board evaluation

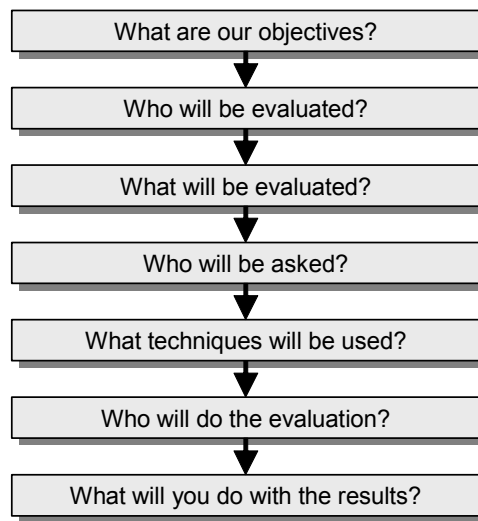


Figure 2: Who will be evaluated?

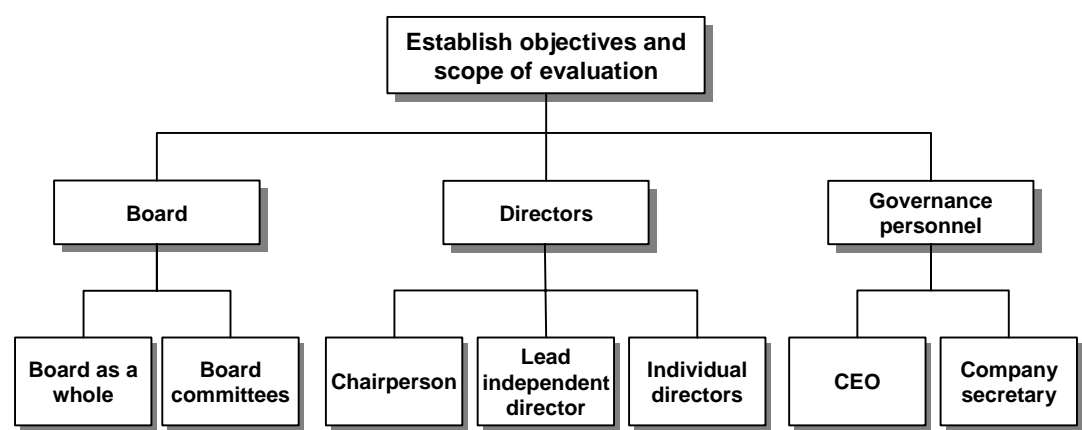
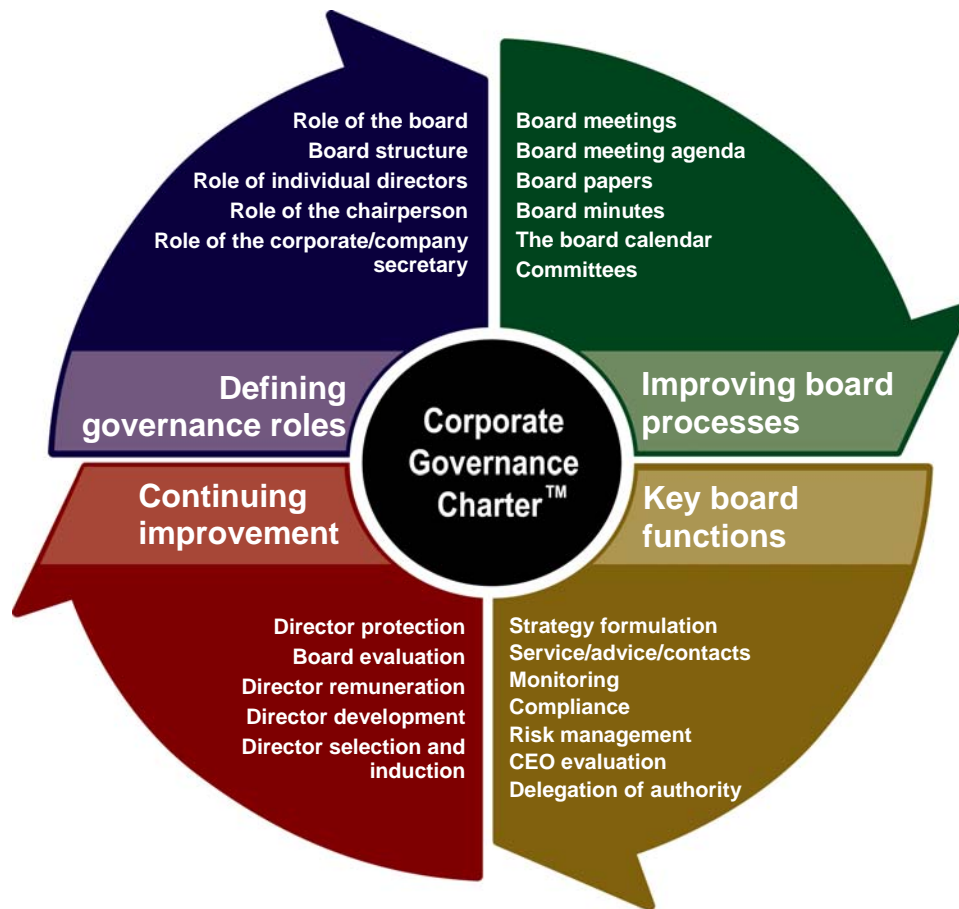


Figure 3: The Corporate Governance Charter model



Source: Kiel & Nicholson, 2003

Figure 4: Who will be asked?

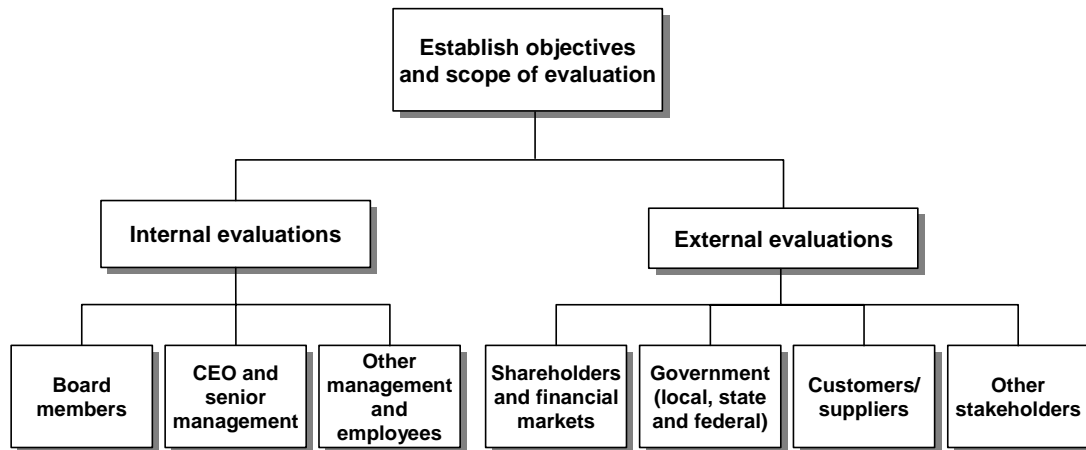


Figure 5: Evaluation techniques

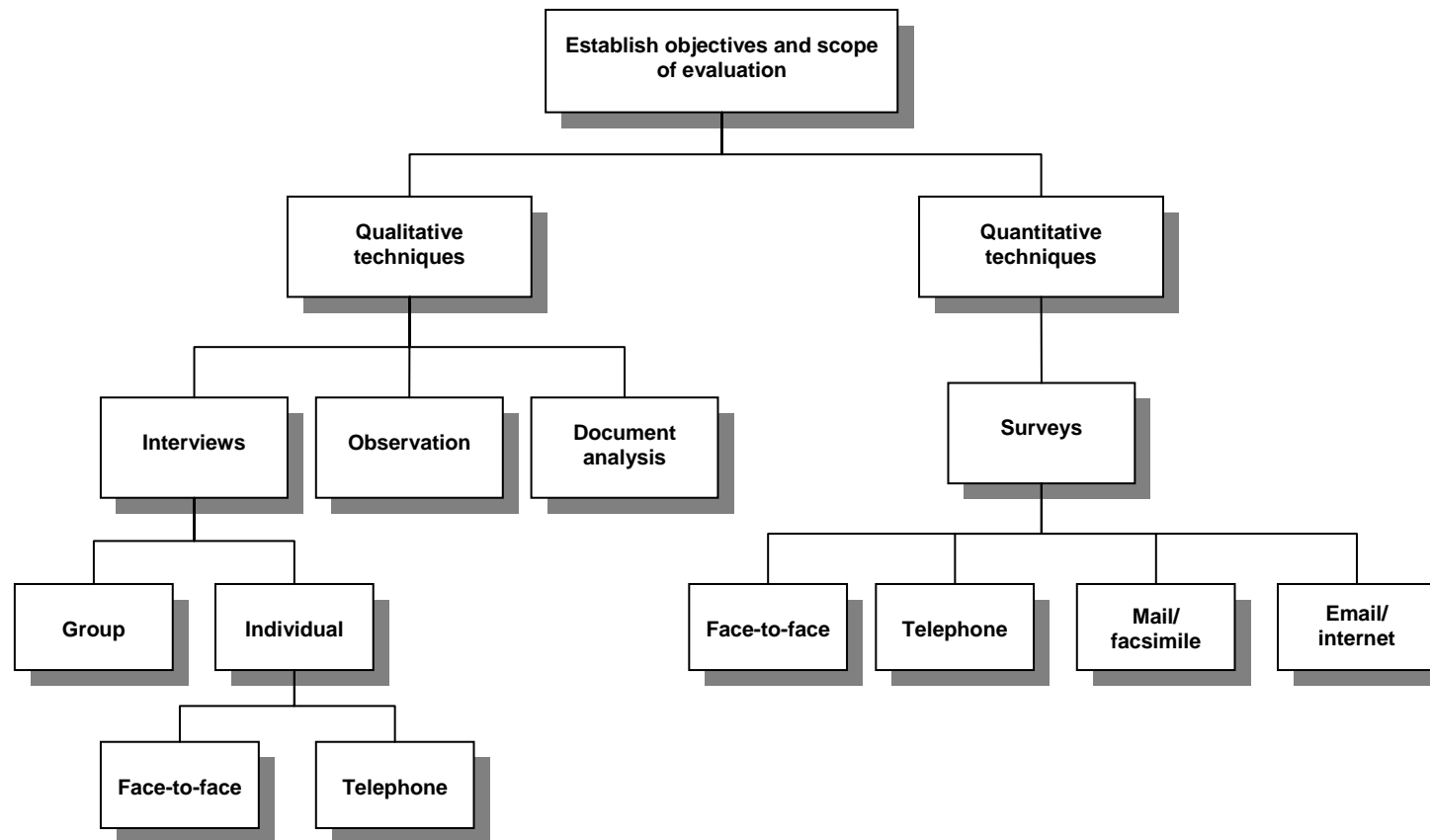
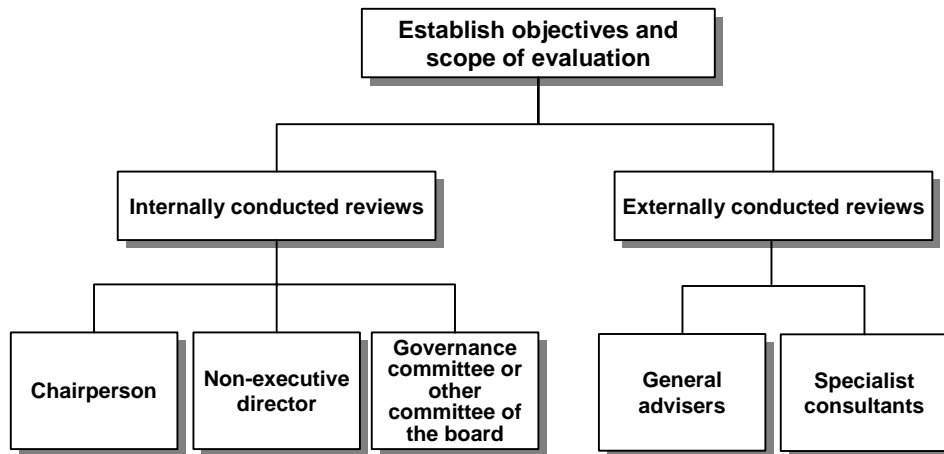


Figure 6: Who conducts the board evaluation?



Evaluating Boards and Directors

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Evaluating Boards and Directors

Abstract

The challenge for boards is to prevent crises in the organisations they govern. Performance evaluation is a key means by which boards can recognise and correct corporate governance problems and add real value to their organisations. Our paper provides a practical introduction to board and director evaluations. We discuss the reasons for governance failures and how board evaluations can help prevent them from occurring. We then review the performance pressures facing boards and the benefits of board evaluations in meeting these pressures. Finally, we introduce our framework for a successful board and/or individual director evaluation, whatever the company type. In this framework, we suggest there are seven key questions to consider when planning a board evaluation and discuss each of these seven decision areas.

Keywords: Boards of directors; Performance evaluation; Corporate governance

Evaluating Boards and Directors*

Behavioral psychologists and organizational learning experts agree that people and organizations cannot learn without feedback. No matter how good a board is, it's bound to get better if it's reviewed intelligently (Sonnenfeld, 2002: 113).

Corporate governance issues continue to receive a high profile in the business press. Recent problems at Disney and Fannie Mae in the United States, and the massive losses at Marconi plc in the United Kingdom, add to the litany of governance failures and scandals that have characterised big business in the 21st century. These failures underscore the fact that boards must be concerned with more than organisational and management performance, they also need to review their own performance. Board evaluation is a significant way for boards to show they are serious about their performance, and as Sonnenfeld astutely observes in the above quotation, even good boards can benefit from a properly conducted evaluation. Unfortunately, while “[m]ost people are interested in doing an evaluation...they’re quite ignorant about how to do it” (Bob Garratt qtd in Bingham, 2003). This paper provides a practical introduction to board and director evaluations.

To begin, we discuss reasons behind governance failures and how board evaluations can help prevent them. We then highlight the significant performance pressures boards now face and the benefits of board evaluation in helping meet these pressures. In the third section of the paper, we introduce our framework for a successful board and/or individual director evaluation. In this framework, we suggest there are seven key questions to consider when planning a board evaluation and discuss each of the

* This paper was presented at the 7th International Conference on Corporate Governance and Board Leadership, 11-13 October 2004 at the Centre for Board Effectiveness, Henley Management College.

seven decision areas for the board evaluation process. Whether a company is listed on the stock exchange, a small family company or a not-for-profit organisation, the framework can be used to develop an evaluation process appropriate to the organisation.

Governance failures

Governance failures may result in either a significant reduction in, or total destruction of, shareholder wealth. There are also a broader set of economic and social ramifications that come with the closure of businesses and loss of jobs and retirement benefits. Given the widespread implications of corporate failure, it is important to understand how boards contribute to this failure. We provide four categories for these failures: strategic, control, ethical and interpersonal relationship. Often these failures are interrelated. For example, at Enron, the board failed in the areas of strategy, control and, arguably, ethics, while at Hollinger International there were failures in the areas of control and ethics. The following examples illustrate the four categories of governance failure:

1. Strategic failure: with full board approval, the managing director of UK corporation Marconi plc disposed of the company's engineering, electrical and defence products businesses despite these being the foundation of the company's success. The company, again with board approval, launched into an ill-considered and ill-timed strategy aimed at turning Marconi into a cutting edge technology firm (Court, 2003);
2. Control failure: the board of Barings plc oversaw an inadequate risk management system that resulted in losses estimated to be in the vicinity of £927 million. As a result, rogue trader Nick Leeson brought down the merchant bank (Hogan, 1997);

3. Ethical failure: in an attempt to remove potential asbestos liabilities from the company's books, Australian building products company James Hardie Industries restructured its business through the incorporation of a new parent company in the Netherlands. During the process it transferred responsibility for asbestos compensation to a medical foundation that was found to be under-funded (Buffini, 2004). The company is still battling the reputation damage of the board's decision; and
4. Interpersonal relationship failure: the board of Walt Disney Co. has earned the ire of institutional investors for its lack of an independent board. Boardroom battles between then chairman and CEO Michael Eisner and dissident board members Roy Disney and Stanley Gold, who subsequently resigned to lead a campaign to oust Eisner, have become the stuff of legend (CBSNEWS.com, 2003).

We could continue this litany of examples of corporate failure and even debate the categorisation of each failure. But it is not our intention to document corporate failures, rather it is to assist boards improve themselves, so as to minimise failure from strategic ineptitude, lack of controls, dishonesty or poor dynamics.

Board evaluations provide a process for boards to identify sources of failure. They allow boards to diagnose areas of concern before they reach crisis point. For example, a board evaluation can ask the directors how well the board is performing the strategy role and whether they feel comfortable that they are adding value in the strategy generation process. Similar questions can be asked about the monitoring and control role of the board. A well-designed evaluation, covering both board-as-a-whole and individual director evaluation, is likely to raise the issue of ethical concerns among some directors in relation to others or management. The same comments can

be made for interpersonal relationship failure. A well-designed board evaluation can serve to highlight potential issues and promote discussion and resolution before concerns become major crises. Board evaluations are not a universal panacea for all board ills. However, used correctly and regularly, they may play a major role in averting a governance failure.

The pressure to perform

Averting corporate failure is not the only pressure faced by boards; increasing demands for organisational performance are also increasing performance pressures on boards. There are number of reasons for this. First, as boards are held increasingly accountable for corporate performance, they become increasingly more proactive in the leadership of the companies they govern. Effective leadership is seen as critical to establishing the tone of a corporation (i.e. its culture and values), developing a strategic direction, guiding change and formulating corporate objectives, and ensuring effective implementation takes place. Holding boards accountable in these areas represents a fundamental shift in organisational thinking. For close on 100 years, the chief executive, supported by his or her management team, was largely seen as totally responsible for these areas. Today, underpinned by theoretical developments in agency theory (e.g., Hendry, 2002), and fuelled by tales of corporate excesses such as Hollinger International (Aylmer, 2004) and Tyco (Bianco, Symonds, Byrnes and Polek, 2002), shareholders, legislators and society at large are increasingly demanding that boards demonstrate leadership and control. After all, they are the peak body in organisations. In short, the role of the board has changed from management support to organisational leadership. This represents a paradigm shift in management thinking, the full implications of which are just dawning upon companies and commentators alike (Pound, 1995).

Second, and related to the first reason, there has been a dramatic rise in shareholder activism over the past two decades. The main reason for this increased activism is the increase in power of large institutional investors, who are becoming far more demanding of boards. This trend is seen internationally with large pension funds in the US (such as CalPERS) being vocal advocates for governance reform. Thus, despite mixed findings on the empirical links between corporate governance and firm performance (e.g., Dalton, Daily, Ellstrand and Johnson, 1998; Dalton, Daily, Johnson and Ellstrand, 1999; Rhoades, Rechner and Sundaramurthy, 2000), there is a discernable and growing belief in the investment community that good governance will enhance corporate outcomes. Institutional investors perceive that the board can directly enhance shareholder value by intervening in the case of corporate crises, providing strategic guidance and selecting and monitoring the CEO (Conger, Lawler and Finegold, 2001). As a result, more than 80% of European and US institutional investors say they will pay more for companies with good governance (Economist Intelligence Unit, 2001). The onus on boards to improve performance is further strengthened by the ability of shareholders and investors to assess the corporate governance practices of major corporations through ratings systems such as those developed by Standard & Poor's (2003) and the Corporate Library (2004), which rate board effectiveness using factors such as board composition, director tenure and CEO compensation.

In addition to leadership responsibilities and shareholder activism, there is an increasing media and community scrutiny of all aspects of corporate life. Names such as Enron, WorldCom and Tyco International in the US, along with Marconi and Barings in the UK and HIH Insurance in Australia, have come to symbolise a breakdown in corporate ethics and boards are squarely in the firing line. Society at

large is beginning to lay the blame for poor corporate decision making (such as at Marconi) and systems failures (such as Baring's risk management controls) directly at the feet of the board. It appears this scrutiny will continue and only serves to intensify community expectations that boards need to be brought to account for the performance of the companies they govern.

For these reasons boards are turning to board evaluation as a major tool to assist them in improving their performance. This global trend sees specific board evaluation recommendations forming a key component of nearly every major corporate governance review or report. For example, the *Principles of Good Corporate Governance and Best Practice Recommendations* (ASX Corporate Governance Council, 2003) in Australia, *Beyond Compliance: Building a Governance Culture* (Saucier, 2001) in Canada, the *Combined Code on Corporate Governance (Combined Code)* (Financial Reporting Council, 2003) in the U.K., and the *Principles of Corporate Governance (A White Paper from the Business Roundtable, May 2002)* (Business Roundtable, 2002) in the U.S., all make specific recommendations for the regular review of board performance.

The benefits of an evaluation to a board are numerous. If conducted properly, board evaluations can contribute significantly to performance improvements on three levels – the organisational, board and individual director level. Boards who commit to a regular evaluation process find benefits across these levels in terms of improved leadership, greater clarity of roles and responsibilities, improved teamwork, greater accountability, better decision making, improved communication and more efficient board operations. Table 1 summarises the potential benefits of board evaluation to the organisation, the board as a whole and to individual directors. It must be stressed, however, that these benefits can only arise from a properly executed board evaluation.

Board and director evaluations, if incorrectly executed, can lead to distrust among board members and between the board and management.

INSERT TABLE 1 ABOUT HERE

The board evaluation framework

Following is a framework for conducting positive board and director evaluations. Although boards differ in the severity of their performance problems, the competitive environment in which they work and the range of performance issues they face, there are a number of key decisions that are relevant to all boards implementing an evaluation process. Our framework for a successful board or individual director evaluation relies on the board reaching agreement on the answers to the seven key questions illustrated in Figure 1 (Kiel, Nicholson and Barclay, 2005). While the seven questions must be asked for all board evaluations, the combined answers can be quite different. As a result, while the questions are common to each, board evaluations can range markedly in their scope, complexity and cost. While we describe our framework as a sequential series of events, in practice most boards will not follow such a linear process. Some of these decision areas will be reached simultaneously, for example, “who will be evaluated” may be decided at the same time as “who will conduct the evaluation”. Similarly, external issues may dominate the approach (e.g., scarce resources may dictate an internal review). However, at some point, each of these questions will need to be answered.

INSERT FIGURE 1 ABOUT HERE

What are our objectives?

The first stage of the board evaluation process is to establish what the board hopes to achieve. Clearly identified objectives enable the board to set specific goals for the evaluation and make decisions about the scope of the review. Such issues as the complexity of the performance problem, the size of the board, the stage of organisational life cycle and significant developments in the firm's competitive environment will determine the issues the board wishes to evaluate. Similarly, the scope of the review – how many people will be involved, how much time and money to allocate – will be determined by the severity of the problems facing the board and the availability of sufficient resources (human, financial and time) to carry out an evaluation.

The first decision for most boards to consider is the overriding motivation for the evaluation process. Generally, the answer to this question will fall into one of the following two categories: (1) corporate leadership (for example, “We want to clearly demonstrate our commitment to performance management”, “We believe reviewing our performance is essential to good governance”, “We want to provide directors with guidance for their learning and growth”) or (2) problem resolution (for example, “We are not sure if we are carrying out good governance”, “Our governance (or some specific aspect) is ineffective and/or inefficient”, “There are problems in the dynamics in the boardroom”, “We do not seem to have the appropriate skills, competencies or motivation on the board”).

Many boards find that establishing the specific objectives for the review is best delegated to a small group (such as the governance committee or nomination committee if you have one) or an individual (such as the chairperson or lead independent director). In this case, the first step is for the board to request the group

or person to document the specific objectives for the process. At this stage you may also wish to consider consulting with an external adviser to overcome any board “blind spots” or biases. The second approach involves the board as a whole discussing and agreeing the objectives of the board evaluation. Generally an individual, usually the chairperson or chair of the governance or nomination committee, is delegated the task of leading the process.

With clear objectives, it is relatively easy to decide whose performance will be evaluated, who the most appropriate people are to assess performance and the person or group best suited to conducting an evaluation.

Who will be evaluated?

With the objectives for the evaluation set, the board needs to decide whose performance will be reviewed to meet them. Comprehensive governance evaluations can entail reviewing the performance of a wide range of individuals and groups, as illustrated in Figure 2. Boards need to consider three groups: the board as whole (including board committees), individual directors (including the roles of chairperson and/or lead independent director), and key governance personnel (generally the CEO and corporate/company secretary). Pragmatic considerations such as cost or time constraints, however, often preclude such a wide-ranging review. Alternatively, a board may have a very specific objective for the review process that does not require the review of all individuals and groups identified in Figure 2. In both cases, an effective evaluation requires the board to select the most appropriate individuals or groups to review based on its objectives. To make this decision, we recommend a four-stage process that gradually filters a comprehensive list of possible review participants to a pragmatic selection of review subjects.

INSERT FIGURE 2 ABOUT HERE

The first stage in the process involves identifying the roles that clearly impact on the board's review objectives and compiling a comprehensive list of individuals or groups that affect this objective. For instance, a review designed to improve the flow of information to the board will have a long list of possible candidates for the review. The CEO is an obvious candidate, as he or she will be responsible for developing and delivering the bulk of board papers and information. The board will also need to consider its own role in specifying its information requirements to the individuals and groups responsible for meeting those requirements. The board also needs to consider the role of other personnel such as the corporate/company secretary.

The second stage involves assessing the potential benefit(s) of including each candidate (group or individual) in the review. Documenting these benefits ensures the board will have a common understanding of the relative merits of reviewing each candidate when deciding who to include. Categorising the specific advantages of each candidate as critical, useful, or ancillary will assist in your decision making. For the third stage, it is necessary to estimate the time and cost implications of evaluating the performance of the candidates in question.

The final stage in deciding who to evaluate involves balancing the benefits and costs of reviewing each of the candidates. While it is not possible to provide universal, prescriptive guidance, the principle is to ensure that all candidates with a major impact on the desired objective are reviewed. The relative importance of each candidate will need to be considered in light of the importance of the review objective, the relative importance of potential candidates, and the relevant cost implications.

The most common issue in deciding who to evaluate is whether to concentrate on board-as-a-whole or individual director assessment. Regular evaluation of the board as a whole can be seen as a process that ensures directors develop a shared understanding of their governance role and responsibilities. Although board-as-a-whole evaluation is excellent as a familiarisation tool for inexperienced boards, one disadvantage is that group evaluation may give only limited insight into performance problems. Consequently, some boards choose to progress to the evaluation of board committees, individual directors and the chairperson to gain greater insight into how their board is functioning.

Individual evaluation, in particular, provides the board with an opportunity to probe particular issues in depth. To evaluate individual directors, either self- or peer-evaluation techniques can be used. The aim of self evaluation is to encourage directors to reflect on their contributions to board activities and have them identify their personal strengths and weaknesses. However, while useful for personal reflection and development, self assessment is inappropriate when the board wants an objective view of the individual's performance. An objective view is best gained through peer evaluation, whereby directors identify each other's individual strengths and weaknesses. By having members of the board evaluate each other, it is possible to gain a more rounded picture of the strengths and weaknesses of each director and their contribution to the effectiveness of the board. It can also be used to identify skills gaps on the board. Peer assessment is also more likely to reveal why the board is experiencing team performance or ethical dilemmas.

There is the potential, however, to create serious conflict within the board if individual performance evaluation is introduced when some directors are opposed to the process. Board members are entitled to hold differing views on the benefits of

individual director evaluation, but consensus must be reached before introducing the process. If directors are willing to at least trial this approach, research evidence suggests that many directors find individual director evaluation an extremely beneficial process (Conger, Lawler and Finegold, 2001: 112).

What will be evaluated?

Having established the objectives of the evaluation and the people/groups that will be evaluated to achieve those objectives, the next stage involves the evaluation becoming specific. It is now necessary to elaborate these objectives into a number of specific topics to ensure that the evaluation (1) clarifies any potential problems, (2) identifies the root cause(s) of these problems, and (3) tests the practicality of specific governance solutions, wherever possible. This is necessary whether the board is seeking general or specific performance improvements and will suit boards seeking to improve areas as diverse as board processes, director skills, competencies and motivation, or even boardroom relationships.

When an organisation is facing a significant governance issue or a board is seeking to improve its performance, there is rarely a single issue that requires review. The vast majority of governance concerns are, in fact, the result of the interplay between individual skills, experience and motivations; the relationships between the board and management; and the effectiveness of supporting governance policies, procedures and processes (Kiel and Nicholson, 2003). Consequently, while there may be a single objective for a board review, it is imperative for the evaluation process to examine a wide range of potential causes or influences on this objective.

We suggest that boards consider their specific objectives in light of a best practice corporate governance framework. The framework acts as a “lens” through which to view the objectives and allows the board to develop a comprehensive list of potential

areas for investigation. Of course, a comprehensive list of areas for investigation will need to be balanced with the scope of the evaluation and the resources available for the project. This stage requires the person leading the evaluation to take a realistic assessment of the resources available, a key component of which is the time availability of directors and other key governance personnel, such as the CEO and corporate/company secretary.

There are a number of frameworks against which boards can assess their performance. Specific examples of governance frameworks that boards can use to refine their evaluation objectives include John Carver's (1997b) Policy Governance model, the UK's *Combined Code* (Financial Reporting Council, 2003), the *OECD Principles of Corporate Governance (OECD Principles)* (OECD, 2004), the Australian Stock Exchange (ASX) Corporate Governance Council's (2003) *Principles of Good Corporate Governance and Best Practice Recommendations* and Kiel and Nicholson's (2003) Corporate Governance Charter framework. It is worth reviewing each in turn.

John Carver (1997b) recommends frequent board self-assessment in his Policy Governance model. This is done by comparing the board's performance to the policies it has developed. Under Carver's model, the board is responsible for the job of governing, not managing the organisation. In order to carry out its leadership role, the board produces four categories of policies:

1. Ends: the policies which specify organisational outcomes for the recipients and costs of the intended outcomes;
2. Executive limitations: the policies that limit executive authority;

3. Governance process: the policies that define how the board operates, and expectations of the board as a whole, individual directors, executives, and committees; and
4. Board-management relationship: policies on the board's delegation of power and monitoring of its use by the CEO.

The aim of the *Combined Code* is to enhance board effectiveness and to improve investor confidence by raising standards of corporate governance in the U.K. The *Combined Code*'s main and supporting principles provide a framework through which a board could develop a set of topics or questions for board evaluation. For example, Section 1A.3 (Board balance and independence) could form the core criterion for the evaluation of a board on the question of whether it has the proper structure (which includes the skills and experience that should be represented on the board) and size to adequately discharge its responsibilities and duties. This section could also be used to clarify what those responsibilities and duties entail. The *Combined Code* also provides specific advice on board evaluations (Financial Reporting Council, 2003). It suggests boards should be asked to consider "How well has the board performed against any performance objectives that have been set?" and "What has been the board's contribution to the testing and development of strategy?" (Financial Reporting Council, 2003: 77). Similarly, the *OECD Principles* outline how to implement a corporate governance framework and as such are a suitable model around which to develop evaluation criteria.

In Australia, the *ASX Principles of Good Corporate Governance and Best Practice Recommendations* contains 10 principles of good governance which are voluntary; however, ASX-listed companies that do not follow them are expected to explain why they do not. Corporate governance statements in the annual reports of companies

listed on the ASX indicate that these principles are being given close consideration. The principles and best practice recommendations developed by the Council provide another example of a framework through which a board could develop a set of topics or questions for board evaluation. For example, the ASX principles encourage organisations to structure their boards to add value to the company (ASX Corporate Governance Council, 2003, 19). This could form the core criterion for the evaluation of a board on the question of whether it has the proper structure (which includes the skills and experience that should be represented on the board) and size to adequately discharge its responsibilities and duties, and to clarify what those responsibilities and duties entail.

The final example, Kiel and Nicholson's Corporate Governance Charter framework, illustrated in Figure 3, is conceptualised as a wheel divided into four quadrants representing the essential elements of corporate governance. The first quadrant "Defining governance roles" helps boards to define their roles and responsibilities, the second, "Improving board processes", encourages board members to consider the effectiveness of their meeting procedures, agendas, board papers and minutes as well as the board calendar of events and ensuring efficient processes for board committees. The third describes "Key board functions" and the final quadrant, "Continuing improvement", deals with the processes and procedures necessary for ensuring continuing improvement and corporate renewal.

INSERT FIGURE 3 ABOUT HERE

The following example highlights how a board can use a framework to address their particular evaluation objectives. Boards often set an objective of identifying any

skills gaps on the board. Generally, this topic arises when there have been major changes in the strategy or competitive environment of an organisation and the board sees a need to review its skill set. Choosing what to evaluate in these circumstances will depend on such issues as board size and structure, as well as how the board executes its key functions (e.g., strategy formulation, service, monitoring, compliance and risk management). Only by reflecting on these topics can a board understand what skills it needs.

When the evaluation objective is to identify skills gaps, the board may also need to consider how it will resolve any gaps. Does the board adequately promote director development? Is there a director development budget? Or would it be more appropriate to appoint someone with the appropriate skills to the board? If recruitment is an option, does the board have in place selection and induction procedures that will enable the board to recruit a new board member with suitable skills? Table 2 provides a selection of questions developed from the Corporate Governance Charter model to be used in evaluating the board as a whole.

INSERT TABLE 2 ABOUT HERE

Deciding what to evaluate is one of the most difficult and yet critical components of the evaluation process. The evaluator faces a delicate balancing act between ensuring the questioning is extensive enough to identify the root cause(s) of the issue, yet manageable enough to satisfy the scope and resource constraints of the review.

Who will be asked?

In our experience, the vast majority of board and director evaluations concentrate exclusively on the board (and perhaps the CEO) as the sole sources of information for

the evaluation process. As Figure 4 illustrates, this discounts numerous potentially rich sources of feedback on the performance of the governance system. As the diagram highlights, participants in the evaluation can be drawn from within or from outside the company. Internally, board members, the CEO, senior managers and, in some cases, other management personnel and employees may have the necessary information to provide feedback on elements of a company's governance system. Externally, owners/members and even financial markets can provide valuable data for the review. Similarly, in some situations, government departments, major customers and suppliers may have close links with the board and be in a position to provide useful information on its performance.

INSERT FIGURE 4 ABOUT HERE

In each board evaluation, the facilitator will need to decide the appropriateness of each potential participant's knowledge to the particular performance issues being evaluated. Generally, boards consult internal sources first. One way of delineating between internal and external participants is to revisit the evaluation objectives and clarify whether the focus of the evaluation is on the skills, processes and relationships of the board or on the board's effectiveness in carrying out its key roles. For example, investigating the effectiveness of intra-board relationships is likely to be an exclusively internal process, where directors give their impressions of the performance of the board as a whole, their personal performance and possibly that of their peers. In this situation, the board members themselves are the most qualified to comment on how they feel they work together as a team. However, if an objective of the board is to improve stakeholder relationships, this will best be achieved by

gathering information from the stakeholders themselves. Depending on the nature of the business, these may be owners, financial analysts, customers or suppliers critical to the organisation's success.

While these examples of intra-board relations and stakeholder relations represent clear-cut instances of the value of internal or external data sources, the board's performance is often best evaluated by a combination of internal and external sources. Table 3 describes potential benefits and drawbacks of asking the various participants.

INSERT TABLE 3 ABOUT HERE

After examining all potential sources of information along with their relative advantages and disadvantages, the facilitator must decide which sources to include in the review. This requires an understanding of three issues:

1. in light of the specific questions identified in the previous step, who has the knowledge needed to make a valid and reliable assessment;
2. what is the level of board experience with, and openness to, the evaluation process and what is the impact on who should be asked; and
3. what resources are available to collect the information from the required sources.

What techniques will be used?

Depending on the degree of formality, the objectives of the evaluation, and the resources available, boards may choose between a range of qualitative and quantitative techniques. Quantitative data are in the form of numbers. They can be used to answer questions of how much or how many. Qualitative data are not in the

form of numbers and will be required for any other type of research question. Put simply, a question of “how much” should employ quantitative research methods, whereas questions of “what”, “how”, “why”, “when” and “where” should employ qualitative research methods. Figure 5 provides an overview of the major qualitative and quantitative techniques used in board evaluations.

INSERT FIGURE 5 ABOUT HERE

Most boards undertake evaluations without a clear view of the issues before them. When the evaluation’s objectives are to identify the key governance problems, screen alternative solutions and/or uncover new approaches, qualitative research comes to the fore. Qualitative data does have several drawbacks, however. The major drawback is that interpreting the results requires judgment on the part of the person undertaking the review and analysis. Consequently, conclusions can be subject to considerable interpreter bias, even (or particularly) where the person conducting the review is a board or company member. This is best addressed by using experienced researchers for the task and having several participants review the conclusions for bias. Bias can also be mitigated by using both quantitative and qualitative techniques (e.g., using a survey in conjunction with interviews).

While there are many different techniques for collecting qualitative data (e.g., projective techniques, word associations and role playing to name just a few), the three main methods used in governance evaluations are interviews, board observation and document analysis.

The interview is the main qualitative data collection tool because it provides a unique opportunity to collect complex and rich data. It is an excellent way of assessing

directors' perceptions, meaning and constructions of reality by asking for information in a way that allows them to express themselves in their own terms. Interviews may be conducted individually or in a group situation. While interviews are essentially about asking questions and receiving answers, the key to uncovering rich information is a professional, well-designed interview process.

By far the most common form of qualitative technique is the individual in-depth interview. The key advantage of the individual interview is that it provides the conditions most likely to encourage candid disclosure of sensitive issues, particularly where confidentiality is assured. The confidentiality of the situation often encourages directors to disclose information that they may feel uncomfortable discussing in a group situation. Thus, individual interviews can be a useful technique for certain subjects such as individual director evaluation. The interview technique is particularly suitable for boards wanting to explore one or two major issues in some depth. In-depth interviews are potentially a much richer source of information than quantitative data because the range of any discussion is open-ended. They also prove useful when discussing "soft" issues, personal concerns and points of view that are not readily disclosed in a written questionnaire (Conger, Lawler and Finegold, 2001).

In a group situation (often called a focus group), the interviewer works with several people simultaneously rather than individually. The key difference for the interviewer is that he or she takes on the role of a moderator or facilitator, rather than that of an interviewer. Rather than the question and answer pattern of the traditional interview, the interviewer uses group dynamics to stimulate discussion of the questions and topics of interest (Punch, 1998). The key benefits of group-based interviews are that they are less resource intensive and can stimulate the participants to produce data and insights that would not be found without the group interaction. Conversely, these

benefits need to be balanced with possible problems of group culture and dynamics that may inhibit candid disclosure. It is also more difficult for the interviewer to establish rapport in a group setting. We would not normally recommend employing group interviews where there are potentially sensitive issues under review.

Another useful qualitative technique to consider is observation, particularly observation of a board meeting. This technique involves the researcher observing the participants in their natural environment – the boardroom. The researcher neither stimulates nor manipulates the participants (i.e. no questions are asked, etc.), but rather takes note of the participants' behaviours, activities and points of interest to the research question.

Observation has a number of advantages as a data collection technique. Since the data is collected as events occur and is a record of what *actually* occurred, rather than what a director *thought* occurred, it is free from respondent bias, but is still subject to observer bias. It is also easier to identify environmental influences (such as seating arrangements in the boardroom) on behaviours and can also be an effective way of seeing all board members in action at the one time. Our experience is that observation can be especially useful when the evaluation objectives relate to issues of boardroom dynamics or relationships between individuals. The observer can notice how board members relate to each other, if one or two people dominate discussions, whether the chairperson demonstrates a strong leadership role, if there is tension between board members, how the agenda works in practice and so on. This information is valuable when used in conjunction with information gained from the directors themselves.

Documents, both contemporary and historical, can be a rich source of information in the governance evaluation process. While it is possible to categorise and/or directly code governance documentation, we recommend document analysis as a method of

triangulation for use in conjunction with other data collection techniques. Reviewing key documents such as board papers, board minutes, policy manuals and governance charters, provides valuable insight into a governance system and a context in which to view the results of other data collection techniques (Punch, 1998). A key benefit of document analysis is the questions it raises. It can be as basic as why a particular document does not exist? What level of detail is included? What is recorded? What is omitted? What is the writer taking for granted? Another benefit is that a review and categorisation of documents can assist an experienced facilitator to benchmark differences between the board's documentation and that of other "best practice" boards.

While quantitative data lack the richness of qualitative data, they have the key advantage of being specific and measurable. This enables the evaluation to count, compare and contrast individual responses both over time and between individuals. Surveys are by far the most common form of quantitative technique used in governance evaluations and can be an important information-gathering tool. It is vital to understand, however, that surveys are attitudinal instruments. Surveys measure individuals' subjective assessments of particular topics and are subject to responder bias. The responses are no more or less valid than qualitative research.

As with qualitative techniques, surveys can be used as the sole source of information for the evaluation, or as one of several data gathering techniques. If the survey is the only method employed to gather data, it will necessarily be more extensive than if it is used in conjunction with other techniques. If it is being used as a component of a governance evaluation, the facilitator will have a key decision to make about the timing of the survey. Will the survey draw on the results of interviews (i.e. will the questions in the survey be based on what directors identified as key issues) to

quantitatively assess what has been identified qualitatively, or will the survey be administered as a stand-alone tool? The answer to this question will depend on the objectives of the evaluation and the context of the review. Often, pragmatic issues such as resources or time constraints dictate the response.

In order to conduct a survey-based board evaluation we suggest following a seven-step process:

1. Specifying the objectives of the survey, in light of the evaluation's overall objectives.
2. Deciding the composition of the survey sample, that is, who will be asked to complete the survey? Is it intended just for board members, or will others, such as the senior management team and the CEO, or external stakeholders be involved?
3. Determining how the survey will be administered. A common way to administer the survey is face-to-face, in a situation where the survey is just one part of evaluating the board's performance. Survey data can also be collected by phone, fax or email, or via the internet, which means that directors can complete them at a time and place suitable for them.
4. Designing the questionnaire. Excellent surveys support the purpose of the evaluation – the topics chosen are relevant to the evaluation requirements, the questions are worded in such a way as to gain the maximum relevant information and to avoid bias, and the measurement technique chosen is most appropriate for the information being sought (Kraut, 1996).
5. Administering the questionnaire. This involves the fieldwork necessary to undertake the board survey, including advising participants of the time and

place for the meeting (if a group survey is being conducted), scheduling appointments (for individual surveys), or sending the questions by mail, fax or email (as an attachment).

6. The coding and analysis stage of the survey process transforms raw data (the recorded measures in the responses) into information that can be used for decision making.
7. Presentation of the results. Once the coded data has been entered, it is a simple process to generate histograms and other charts to present the data.

What is the best methodology? Research techniques need to be adapted to the evaluation objectives and board context. In particular, the research designer needs to be aware of the advantages and disadvantages of the various techniques. Qualitative techniques provide rich data, but the logistics of collecting and analysing the data are difficult. Further, qualitative data is generally interpreted by the researcher, which makes it more open to criticisms of bias and lack of validity. Quantitative analysis, on the other hand, is based on reducing the data or phenomena in question to numbers. This is not nearly as informative as qualitative data, but can be readily collected from a large number of people or other sources. It is also very easily consolidated, compared and/or benchmarked.

The choice of techniques will depend on the board's objectives. If the board is trying to identify the source of a performance problem, qualitative data can help to identify the cause. Similarly, if the objective of the evaluation is to understand member or owner views on a particular subject, qualitative data will be the most appropriate. However, if the board wants to compare its performance with other boards or over time, then quantitative techniques may be best. Most boards will explore a range of

techniques as a means of investigating different performance issues and to keep the evaluation process fresh and interesting. In this way, a regular evaluation cycle will continue to benefit the board.

Who will do the evaluation?

The next consideration in establishing your evaluation framework is to decide who the most appropriate person is to conduct the evaluation. If the review is an internal one, the chairperson commonly conducts the evaluation. However, there are times when it may be more appropriate to delegate either to a non-executive or lead director, or to a board committee. In the case of external evaluations, specialist consultants or other general advisers with expertise in the areas of corporate governance and performance evaluation may lead the process. Figure 6 illustrates the choices for determining who will perform the evaluation.

INSERT FIGURE 6 ABOUT HERE

Internal reviews are traditionally the most common form of board evaluation and have a number of key advantages. First, by conducting an internal review, the board is asserting its autonomy to set and apply its own standards (Berenbeim, 1994). Board autonomy is a key source of power and conducting a self-evaluation demonstrates this authority at the same time as establishing the standards and culture of performance evaluation that the board expects of the rest of the organisation. An internally conducted review also has the advantage of the confidentiality that comes with a board member conducting the process. Ultimately, the value of the evaluation will depend on the level of commitment that participants bring to the process. Ensuring confidentiality through the appointment of a trusted insider can be an important aspect

of gaining this commitment and ensuring that feedback is open and honest. Internally conducted board evaluations can be useful team-building exercises. The ability of the board to function effectively as a team is a fundamental determinant of superior board performance. Finally, internal reviews generally have the advantage of being a more cost-effective option.

Although there are many benefits to internal evaluations, there are also a number of limitations that may make them inappropriate in certain circumstances. The two major concerns involve issues of transparency and capability. In many circumstances, boards undertake evaluations to demonstrate their commitment to performance improvement to both external and internal stakeholders. In these cases, the question of “who watches the watchers” is a serious one. If the board establishes the evaluation process, sets its objectives, evaluates its own members and prepares the final report on its own performance, it may be perceived as lacking transparency.

Apart from transparency, boards need to ensure the nominated person/group has the capability to undertake the review. An internal reviewer often brings (unconscious) biases to the process. It is difficult for the chairperson, directors or corporate/company secretary to provide a totally objective view of the board’s performance when they work so closely together. In particular, full and frank disclosure may be difficult for participants where the reviewer may be central to the governance issue. Similarly, an internal reviewer may lack the skill set and capacity to conduct the review. There are a number of very specific research skills invaluable to the evaluation process that an internally nominated reviewer may not possess. For example, is the person charged with leading the evaluation a skilled interviewer and communicator? Does he or she have sufficient experience in questionnaire design? If the answer to these questions is “no”, an internal facilitator may not be the best

choice. Similarly, even where the evaluator does possess the skills, do they have the necessary time to carry out the tasks required?

As depicted in Figure 6, either an individual (chairperson or non-executive director) or a committee (e.g., governance or nomination committee) can conduct an internal evaluation. Finding the right person to conduct the process is an important part of determining whether an internal evaluation should be undertaken. Table 4 summaries the advantages and disadvantages of internal reviewers.

INSERT TABLE 4 ABOUT HERE

There are a number of situations where boards find it preferable to engage external consultants or advisers to facilitate the board evaluation. Boards tend to seek external evaluation facilitators in two generalised circumstances, namely where there is a significant requirement for transparency and/or where the board does not have the capability to carry out the evaluation itself. External consultants can also prove valuable in a number of special circumstances such as when the evaluation process has become too mechanical over time. External consultants can recommend different questions and approaches, and assist the board to find a new focus for each evaluation. Similarly, when a board is implementing an individual director assessment for the first time, the board may wish to consider an external facilitator. An external facilitator can play a useful mediating role if there are personality considerations in the review process. Using a third party as the messenger of the evaluation outcomes also assists in maintaining board dynamics, while addressing difficult issues. Finally, an external facilitator can be useful if there has been a major board reorganisation.

The major decision for boards deciding to implement an external review is whether they should use a specialist consultant or trusted general adviser. Some boards prefer to utilise a trusted adviser, such as the firm's legal counsel or auditor, to conduct the evaluation. This allows the board to work with people they already know and whom they believe understand the boardroom dynamics.

In contrast, a specialist consultant has the advantages of often possessing a higher level of technical skill and being perceived as having a greater degree of independence. The specialised nature of a board review requires skills often outside the customary scope of many general advisers. Similarly, a consultant engaged specifically to carry out the evaluation can be perceived as more independent than a reviewer with an existing relationship with the firm (such as a general counsel or auditor), if that is an important consideration for the board. Finally, specialist consultants will have a broad range of exposure to different boardroom practices and benchmarks, so if comparison and new ideas are key objectives, specialist consultants may be the answer.

Whether choosing between a trusted adviser or specialist consultant, there are some important questions the board needs to consider:

- Does the proposed facilitator have sufficient skills and experience to conduct an evaluation?
- Has the facilitator conducted board evaluations for other boards like ours?
- Does the facilitator have access to benchmarking information and alternative governance ideas that will add value to the process?
- Will the facilitator be able to form a balanced and objective view of our board?

- Will the board trust the facilitator sufficiently to ensure a positive outcome?

What do you do with the results?

The review's objectives should be the determining factor when deciding to whom the results will be released. Most often the board's central objective will be to agree a series of actions that it can take to improve governance. Since the effectiveness of an organisation's governance system relies on people within the firm, communicating the results to internal stakeholders is critical for boards seeking performance improvement. Given that virtually all governance reviews are conducted with a view to improving the governance system, boards are rarely faced with the decision of whether to communicate the results internally. Rather, the decision is who within the organisation needs to know the results.

Since the board as a whole is responsible for its performance, the results of the review will be released to the board in all but the most unusual of circumstances. Where the evaluation objectives are focused entirely on the board, board members will simply discuss the results among themselves. This occurs, for example, when the objective is to conduct a general review of the board's performance, with a view to improving board process or gaining a shared understanding among board members as to roles or other items of interest. Normally, the board and the corporate/company secretary will review the findings around the boardroom table, and there will be no need to communicate the results to anyone else.

Where the results of the evaluation concern individual director performance, the generally accepted approach is for the chairperson and/or facilitator to discuss them individually, with each director. This approach has three advantages. First, it reflects good performance management principles and ethics by respecting the confidentiality of the process and the individual's integrity. Second, it ensures that difficult topics,

often avoided in the boardroom setting, have a venue for discussion. Third, it does not rely on director self-diagnosis; there is a measure of objectivity and accountability, particularly where the director and chairperson/facilitator outline a development plan to which the director can be held accountable.

The CEO has a significant influence on the governance system and is nearly always involved in the review of results. The key decision here is whether informing the CEO would adversely affect board dynamics and solidarity. Where board dynamics or individual relationships are major governance concerns, the principle of board solidarity may require it to hold an in camera session.

In circumstances where the objective of the board evaluation is to assess the quality of board-management relationships, or where there are process issues concerning management input into board meetings and papers, results of the evaluation will generally be shared with the senior management team. Some organisations choose to communicate a summary of the board evaluation results more widely in the organisation. This can be particularly helpful where boards are seeking to inculcate a culture of performance management and accountability within the company.

In certain circumstances, the board will have an objective of building its reputation for transparency and/or developing relationships with key external stakeholders. In such circumstances, the board should consider communicating some or all of the results of its review to those stakeholders. Communicating the results of the evaluation demonstrates that the board takes governance seriously and is committed to improving its performance.

Additionally, depending upon who participated in the evaluation, the board may also wish to communicate results to key customers, suppliers or other groups important for

its continued success (e.g., unions, environmental groups). Sharing information with these major groups is likely to persuade them that the board is committed to improving stakeholder relationships. It also provides feedback to those who have been asked for their views on the board's performance and can serve to strengthen their relationships with the board.

The performance evaluation cycle

Aside from the seven key questions in an evaluation, boards need to consider how often they should evaluate their performance. Some boards decide to undertake reviews on an "as needs" basis. This approach may be beneficial to boards that have a clearly articulated and understood policy on the triggers that will prompt a review. The difficulty with the "as needs" review is that, unless there are clear guidelines linking them to specific situations such as a change in board composition, performance evaluation is liable to be overlooked.

When choosing to institute a regular review process, boards can institute frequent or longer-term cycles. Some boards choose to hold a regular performance evaluation every two or three years. These tend to be extensive appraisal processes, combining interviews and surveys and often involving an external facilitator. The chief disadvantage of two or three-yearly reviews is that most businesses operate in a very dynamic environment and many changes will occur during this time frame.

The annual review is the most commonly recommended form of board evaluation. This is consistent with the annual planning cycle adopted by most boards. Some boards find it useful to tie board evaluation to the strategy formulation process. This is a useful way of adapting performance expectations to fit the strategic needs of the organisation. For those organisations operating in more dynamic business environments, however, annual reviews may not be frequent enough. In high

technology industries, for example, a review of the board's performance every six months may be more appropriate.

Although the annual review is the most common form of evaluation, this does not necessarily make it the most effective. There is always a danger that the predictable annual event will become stale and no longer add value. If evaluation becomes too routine an activity, boards are in danger of becoming complacent. In these circumstances, it is important to experiment with different evaluation styles and techniques to keep the process interesting and ensure that it continues to lead to performance improvements. Notwithstanding the concern over the process becoming stale through repetition, a set of questions that provide specific, measurable data against which the board can benchmark its performance over time can further contribute to the board's continuing improvement.

Some commentators believe that performance evaluation should be an ongoing process, not just an annual event (e.g., Carver, 1997a). High performing boards tend to devise other mechanisms apart from an annual review to ensure ongoing performance improvement. One option is to review the effectiveness of each board meeting. This can be scheduled as a regular agenda item, with directors taking turns to lead the discussion. The technique involves the appointment of one board member to act as the "meeting evaluator". This person observes the participants, assesses the content and importance of items on the agenda and the quality of board papers. The evaluator then gives his or her opinion in a five-minute review at the end of the meeting. The other board members are then asked for their comments on the effectiveness of the meeting and to offer suggestions for improving performance. The whole process is intended to last no more than 10 or 15 minutes. This is a simple technique for keeping performance issues "front of mind" for the board. It is an easy

way to gain quick feedback and to encourage discussion and interaction between board members, and it requires little time or effort to put in place.

Conclusion

Performance evaluation is becoming increasingly important for boards and directors. Pressure for improved evaluation is coming from two main sources. First, some commentators are calling for mandatory performance appraisals to promote corporate transparency and accountability. Second, there are clear performance benefits to companies when their leaders are willing to engage in an open and honest appraisal of their own performance.

While compliance pressures for improved evaluations should be a consideration for all boards, we have concentrated on emphasising the performance benefits that are possible with rigorous board and individual director evaluation processes. A key way for a board to demonstrate its commitment to continuing improvement is through critical evaluation. Therefore, a regular board evaluation process is an important process that can really add value. It benefits individuals, boards and the companies for which they work.

Boards also need to recognise that the evaluation process is an effective team-building, ethics shaping activity. Our observation is that boards often neglect the process of engagement when undertaking evaluations; unfortunately, boards that fail to engage their members are missing a major opportunity for developing a shared set of board norms and inculcating a positive board and organisation culture. In short, the process is as important as the content. In conclusion, implementing a robust and successful board and director evaluation is one important way to ensure that a board can avert governance failure and consequent organisational failure.

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Table 1: Potential benefits of board evaluation

| Benefits | To organisation | To board | To individual directors |
|-------------------------|--|--|--|
| Leadership | <ul style="list-style-type: none"> ▪ Sets the performance tone and culture of the organisation ▪ Role model for CEO and senior management team | <ul style="list-style-type: none"> ▪ An effective chairperson utilising a board evaluation demonstrates leadership to the rest of the board ▪ Demonstrates long-term focus of the board ▪ Leadership behaviours agreed and encouraged | <ul style="list-style-type: none"> ▪ Demonstrates commitment to improvement at individual level |
| Role clarity | <ul style="list-style-type: none"> ▪ Enables clear distinction between the roles of the CEO, management and the board ▪ Enables appropriate delegation principles | <ul style="list-style-type: none"> ▪ Clarifies director and committee roles ▪ Sets a board norm for roles | <ul style="list-style-type: none"> ▪ Clarifies duties of individual directors ▪ Clarifies protection of directors ▪ Clarifies expectations |
| Teamwork | <ul style="list-style-type: none"> ▪ Builds board/CEO/management relationships | <ul style="list-style-type: none"> ▪ Builds trust between board members ▪ Encourages active participation ▪ Develops commitment and sense of ownership | <ul style="list-style-type: none"> ▪ Encourages individual director involvement ▪ Develops commitment and sense of ownership ▪ Clarifies expectations |
| Accountability | <ul style="list-style-type: none"> ▪ Improved stakeholder relationships, e.g., investors, financial markets ▪ Improved corporate governance standards ▪ Clarifies delegations | <ul style="list-style-type: none"> ▪ Focuses board attention on duties to stakeholders ▪ Ensures board is appropriately monitoring organisation | <ul style="list-style-type: none"> ▪ Ensures directors understand their legal duties and responsibilities ▪ Sets performance expectations for individual board members |
| Decision making | <ul style="list-style-type: none"> ▪ Clarifying strategic focus and corporate goals ▪ Improves organisational decision making | <ul style="list-style-type: none"> ▪ Clarifying strategic focus ▪ Aids in the identification of skills gaps on the board ▪ Improves the board's decision-making ability | <ul style="list-style-type: none"> ▪ Identifies areas where director skills need development ▪ Identifies areas where the director's skills can be better utilised |
| Communication | <ul style="list-style-type: none"> ▪ Improves stakeholder relationships ▪ Improves board-management relationships ▪ Improved board-CEO relationships | <ul style="list-style-type: none"> ▪ Improves board-management relationships ▪ Builds trust between board members | <ul style="list-style-type: none"> ▪ Builds personal relationships between individual directors |
| Board operations | <ul style="list-style-type: none"> ▪ Ensures an appropriate top-level policy framework exists to guide the organisation | <ul style="list-style-type: none"> ▪ More efficient meetings ▪ Better time management | <ul style="list-style-type: none"> ▪ Saves directors' time ▪ Increases effectiveness of individual contributors |

Source: Kiel, Nicholson and Barclay, 2005

Table 2: Skills of the board: topics and sample questions

| Topic | Sample questionnaire items |
|---|--|
| Defining governance roles | |
| Role of the board | 1. Is the role of a board member clearly defined? |
| | 2. Is the role of a board member well understood? |
| Board structure | 3. Does the spread of talent within the board reflect the company's needs? |
| | 4. Do all board members bring valuable skills and experience to the company? |
| | 5. Is the board large enough to carry out the work required of it? |
| Improving board processes | |
| Board meetings | 6. Do the board papers contain the correct amount and type of information? |
| | 7. Are board members diligent in preparing for meetings? |
| | 8. Are matters relating to the company discussed in a structured manner? |
| Key board functions | |
| Strategy | 9. Does the board know and understand the company's mission, vision and strategy? |
| | 10. Does the board know and keep abreast of trends and issues affecting the market in which the company competes? |
| | 11. Does the board understand the business it is governing? |
| Service/advice/contacts | 12. Do board members actively engage in networking for the benefit of the company? |
| Monitoring | 13. Do board members have sufficient financial skills to ensure the board can discharge its governance responsibilities? |
| Compliance | 14. Does the company have relevant internal reporting and compliance systems? |
| Risk management | 15. Are board members aware of their risk assessment duties as directors? |
| | 16. Is there a clear understanding of the company's business risk? |
| Continuing improvement | |
| Director development | 17. Does the board encourage directors to pursue opportunities for personal development? |
| Director selection and induction | 18. Does the board have a succession plan in place for the chairperson? |
| | 19. Does the board have a director succession plan in place? |
| | 20. Are there clear and well understood policies and procedures in place for director selection and induction? |

Table 3: Who has the knowledge?

| Category | Information sources | Knowledge benefits | Potential drawbacks |
|-------------------------|---------------------|--|--|
| Internal sources | Board members | <ul style="list-style-type: none"> Should have key knowledge on skills, processes, relationships, level of shared understanding | <ul style="list-style-type: none"> Suffer from biases (such as groupthink) Little understanding of external perceptions of the board Do not provide a “set of fresh eyes” with which to examine governance processes |
| | CEO | <ul style="list-style-type: none"> Should have a different perspective on all elements of board activity Key insight into the advice role of board Key insight into succession issues | <ul style="list-style-type: none"> Potentially suffers from biases Potentially impression manages for the board, particularly on issues of management activities May have a limited or biased understanding of external perceptions |
| | Senior managers | <ul style="list-style-type: none"> Generally good insights into communication between the board and management | <ul style="list-style-type: none"> May not have enough exposure to the board May be tainted by internal company politics |
| | Other employees | <ul style="list-style-type: none"> Should have insight into the culture of the organisation The further removed from the board, the less likely employees can comment on actual performance | <ul style="list-style-type: none"> Limited exposure to the board |
| External sources | Owners/ members | <ul style="list-style-type: none"> Understand ownership aims | <ul style="list-style-type: none"> Will depend on the ownership structure (may be disparate) |
| | Customers | <ul style="list-style-type: none"> Can have unique insights, particularly if the company has very few customers | <ul style="list-style-type: none"> Most likely will have little insight into how the board operates Potential to “game” the system |
| | Government | <ul style="list-style-type: none"> Can have insightful views, particularly in certain areas of compliance, if these are critical | <ul style="list-style-type: none"> Often limited interaction with most companies |
| | Suppliers | <ul style="list-style-type: none"> Can have unique insights, particularly if the company has very few suppliers | <ul style="list-style-type: none"> Most likely will have little insight into how the board operates |
| | External experts | <ul style="list-style-type: none"> Useful benchmarking or best practice insights | <ul style="list-style-type: none"> May not understand company’s context |
| | Other stakeholders | <ul style="list-style-type: none"> Will depend on nature of the company | <ul style="list-style-type: none"> Will depend on nature of the company |

Source: Kiel, Nicholson and Barclay, 2005

Table 4: Chairperson, non-executive director and committee evaluations

| Chairperson | | Non-executive director | | Committee | |
|--|---|---|--|--|--|
| Advantages | Disadvantages | Advantages | Disadvantages | Advantages | Disadvantages |
| <ul style="list-style-type: none"> • Part of leadership role – clear acceptance by board members • Clear accountability • Can align process with overall board agenda | <ul style="list-style-type: none"> • Possible bias • Concentration of power, particularly if the CEO is chairperson • Heavy workload | <ul style="list-style-type: none"> • Clear accountability • More independent view • More time to devote to task • Other leadership experiences/skills | <ul style="list-style-type: none"> • Possible bias • Possible effect on board dynamics • Knowledge of the company will be less than that of the chairperson | <ul style="list-style-type: none"> • Relieves chairperson/ non-executive director of workload • Less reliant on the viewpoint of one person • Less subject to individual bias | <ul style="list-style-type: none"> • Longer process • Demands greater resources (time, money etc.) |

Source: Kiel, Nicholson and Barclay, 2005

Figure 1: Framework for a board evaluation

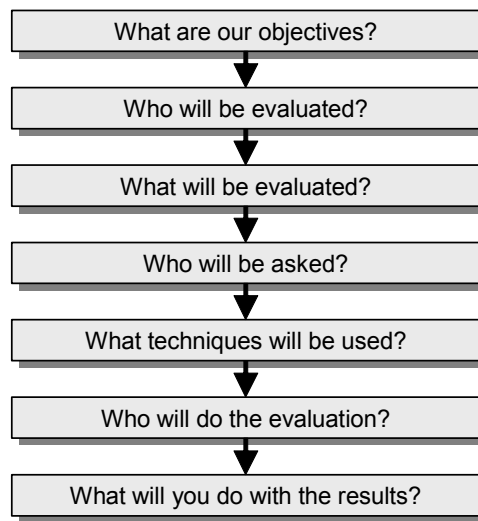


Figure 2: Who will be evaluated?

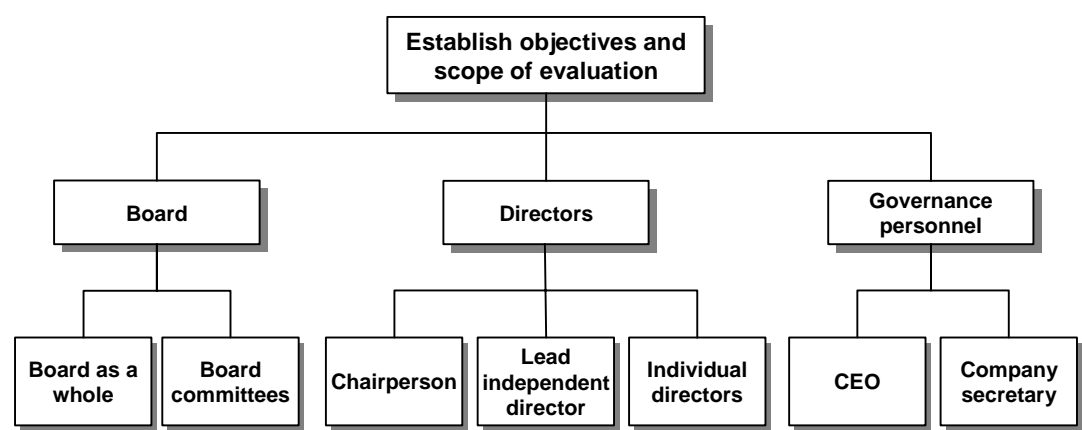
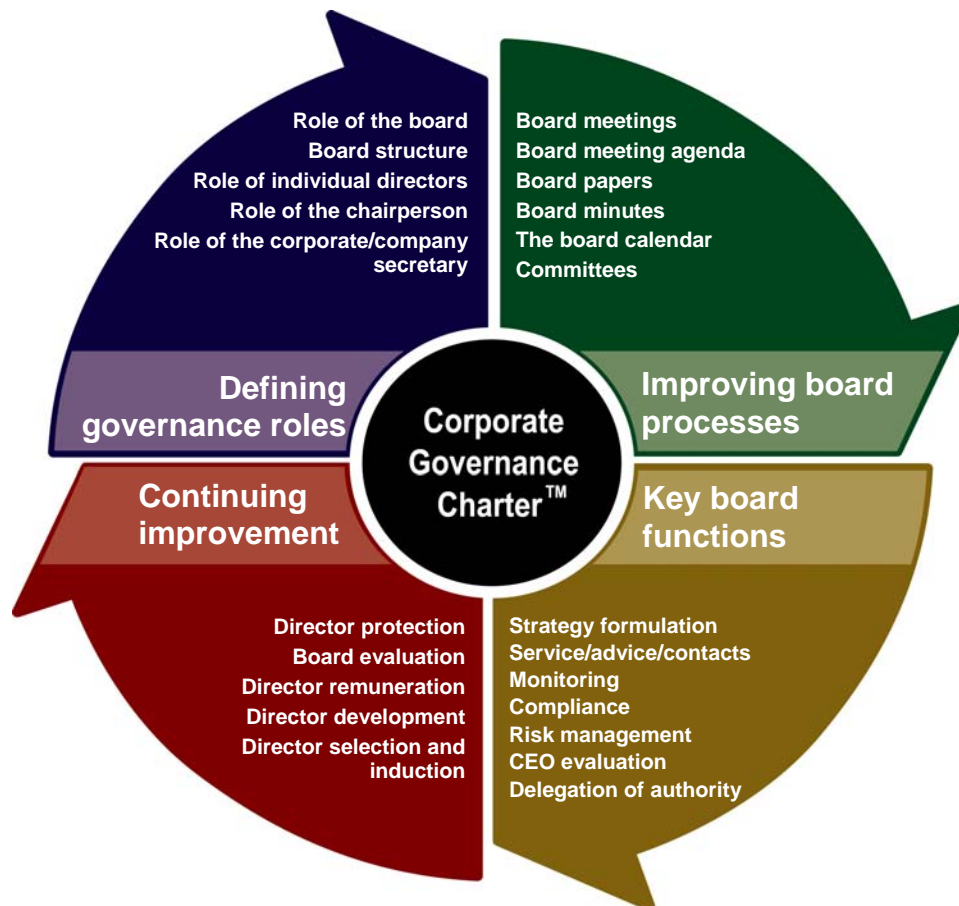


Figure 3: The Corporate Governance Charter model



Source: Kiel & Nicholson, 2003

Figure 4: Who will be asked?

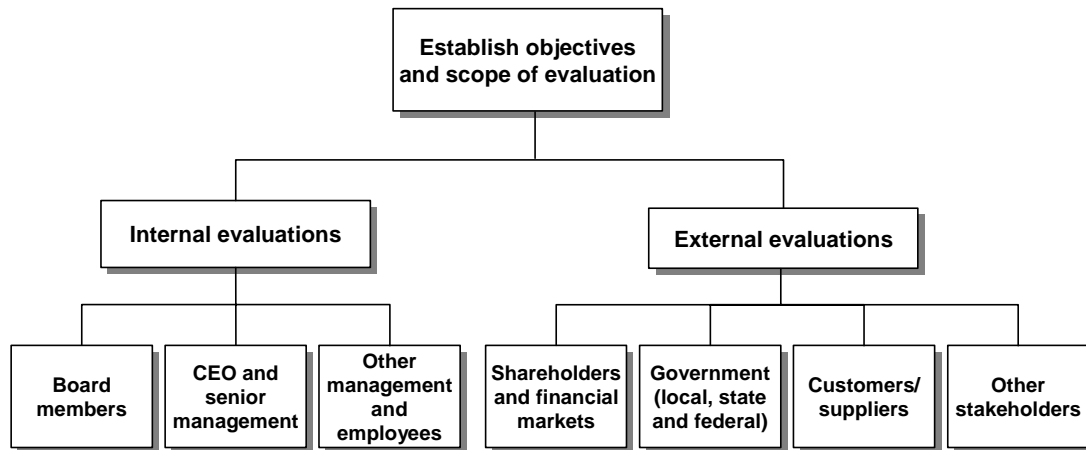


Figure 5: Evaluation techniques

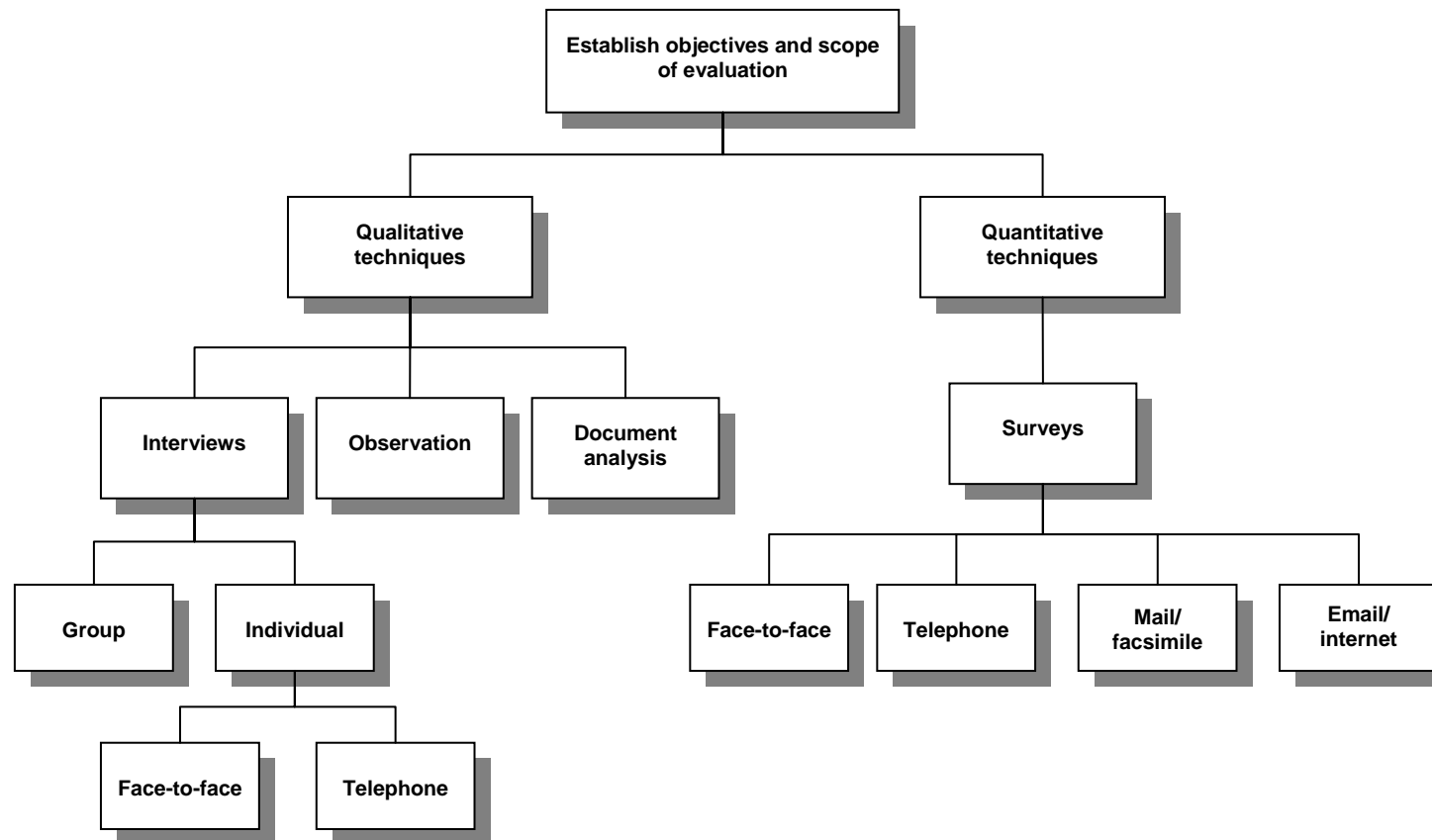


Figure 6: Who conducts the board evaluation?

